

ELECTRICITY OVERSIGHT

BOARD MEETING

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REPORTER'S TRANSCRIPT

APRIL 21, 2000

STATE CAPITOL, ROOM 447

9:37 a.m.

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Reported By: Keli Rutherford, CSR No. 10084

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3 Michael A. Kahn, Chairperson  
4 Gary Heath, Executive Deputy Director  
5 Erik Saltmarsh, Chief Counsel  
6 Bruce G. Willison, Member  
7 John Rozsa, Senator Peace's Office  
8 Senator Debra Bowen  
9 Anna Ferrera, Senator Bowen's Office  
10 Carolyn Veal-Hunter, Assemblyman Wright's Office  
11 Joe Lyons, Assemblyman Wright's Office

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1 (All parties present, the following proceedings were had at  
2 9:37 a.m.)

3 CHAIRPERSON KAHN: Good morning, Ladies and  
4 Gentlemen. My name is Michael Kahn. I'm the chair of the  
5 Electricity Oversight Board. Thank you for coming out  
6 today, especially given it's Good Friday. We started a  
7 little bit early, and we will make every effort to be done  
8 by noon.

9 In that regard I know there are a number of  
10 presentations, and I will assure you that the panel has read  
11 your written submissions and we look forward to your  
12 comments, but you don't need to repeat what you've written  
13 to us.

14 Sitting on my right is Bruce Willison, who is  
15 another public member of the commission. And to his right  
16 is John Rozsa from Senator Peace's office, and Senator Bowen  
17 has just joined us. Good morning.

18 SENATOR BOWEN: Good morning.

19 CHAIRPERSON KAHN: Assemblyman Wright will not  
20 be able to be here today, but his staff member will be here,  
21 and I'll introduce her when she gets here.

22 We have a number of items today to deal with,  
23 including the Oversight responsibilities as to the  
24 organizational documents, we'll talk about the transmission  
25 access charge, and a number of other things.

1                   I'd like to make a couple of preliminary  
2 remarks, though, and tell you that the EOB has been quite  
3 active in the last number of weeks. We are, as you've seen  
4 already, changing the formatting of our meeting.

5                   We have in the documents that were circulated  
6 for public comment for the meeting today we have set forth  
7 all of the proceedings we are involved in at FERC. We have  
8 also set forth all of the matters that the EOB staff are  
9 addressing, and we've also explained why we think it's  
10 necessary and appropriate for us to do that.

11                  All of this is in keeping with our attitude  
12 that we would like the activities of the EOB to be  
13 transparent to the public and to the various constituencies  
14 so you know what we're looking at and what we think is  
15 important.

16                  However, none of this comes without a lot of  
17 effort from the staff, and I would like, at the outset, to  
18 acknowledge the hard work the staff has done in not only  
19 preparing the meeting materials today but also in preparing  
20 the materials that set forth what the EOB is doing and the  
21 activities that the EOB are involved in. You will hear more  
22 about that in the beginning of reports by management.

23                  Before I begin I'd like to invite my  
24 colleagues to make some opening comments, if they have any.

25                  Senator Bowen?

1 SENATOR BOWEN: No, thank you.

2 CHAIRPERSON KAHN: Mr. Willison?

3 MR. WILLISON: No, thank you.

4 CHAIRPERSON KAHN: Okay. Well, then, Mr.  
5 Heath?

6 EXECUTIVE DIRECTOR HEATH: Thank you, Mr.  
7 Chairman and members. Basically for those who are following  
8 along, we will be working off of the notice that was  
9 published eleven days ago.

10 First item on the agenda for today's board  
11 meeting is approval of the March 2nd, 2000, board meeting  
12 minutes, and that is in your binders, Members, under item  
13 number one. I'll need a motion from the board on that.

14 MR. WILLISON: Move approval.

15 CHAIRPERSON KAHN: Second. And all in favor?

16 So that's carried through. Thank you very  
17 much for the preparation of the minutes, and we'll continue  
18 this as a memorialization of what we're doing.

19 The second item is the management report.

20 EXECUTIVE DIRECTOR HEATH: Yes. Thank you,  
21 Mr. Chairman.

22 In your binder this morning are a couple --  
23 what I will call the housekeeping matters. We'll be dealing  
24 with a report on the fiscal -- or budget for fiscal year --  
25 the next fiscal year. We will also be reporting on the

1 establishment of the budget and fiscal committee, and also  
2 the balance sheet and the hiring plan for the remainder of  
3 the fiscal year.

4                   On April 12th Senate Budget and Fiscal Review  
5 Subcommittee Number Five heard the Oversight Board's budget  
6 for fiscal year 2000/2001.

7                   Chairman Kahn, as you know, you were present  
8 there coming out of that Sub Five hearing, the budget wasn't  
9 approved and moved on.

10                  We have just learned late yesterday that the  
11 Assembly Subcommittee Number Four will be hearing the  
12 Oversight Board's budget on the 25th at 1:30.

13                  As I just mentioned at the request of  
14 yourself, Mr. Chairman, and we are requested the  
15 establishment of a budget and fiscal committee. Mr.  
16 Willison will be the chairman with all the other members  
17 sitting as committee members on that committee.

18                  The purpose of that is the overseeing EOB's  
19 budget both in terms of its development and allocation of  
20 resources to programs and activities of the board.

21                  I've also attached a balance sheet which  
22 depicts the remaining resources in the Oversight Board's  
23 budget for the remainder of the fiscal year. The numbers  
24 that are there are numbers that reflect actual expenditures  
25 and those in which we have encumbrances that have been made.

1 It also projects the remaining wages and salaries for the  
2 board's staff as well as the operational expenditures.

3           The remaining or the size of that surplus is  
4 primarily due to our salary savings that we have accumulated  
5 as a result of our inability to do hiring. That brings us  
6 to our next matter.

7           You have in your package today our latest  
8 hiring plan trying to fill the remaining positions. I will  
9 say, I've said this before, because of our very robust  
10 economy, it's very hard to find individuals, particularly  
11 those who are qualified for positions that we have open at  
12 the EOB.

13           We have all of our job opportunity bulletins,  
14 all of the paperwork that we can do, everything on the  
15 Oversight Board administrative side has been done. We're  
16 now waiting for applications to come in. We hope to fill  
17 all those positions as indicated in the hiring plan.

18           Another matter I would like to bring to the  
19 board's attention is a number of legislative bills that have  
20 been introduced this year. I bring this to your attention  
21 not to dwell on this by any means.

22           Typically we are asked as an agency on behalf  
23 of the administration, as well as other agencies, to provide  
24 analyses on these bills. We will be working with the  
25 governor's office at some time in the near future to start

1 that process.

2 I bring these bills to your attention because  
3 a couple of them do, in fact, affect the Oversight Board  
4 directly, and as these bills move through the committees, we  
5 will keep the members informed of the status of those bills,  
6 and we will provide that to the members before anything gets  
7 published.

8 Two other minor issues: You have already  
9 noted in the audience that we have in our binders and now  
10 also posted on the EOB's web page are the listing of the  
11 proceedings that the Oversight Board is involved in, both in  
12 terms of what we call the litigation or the FERC proceedings  
13 as well as other kinds of proceedings that are dealing with  
14 matters of tariff development, reliability matters,  
15 etcetera. Those are in the back of your binder. If you  
16 have any questions on those items we will be prepared to  
17 answer those.

18 What you will see in the very near future are  
19 two additional proceedings that we will identify and have  
20 materials to you dealing with the ISO's management of  
21 proceedings that are currently going on that are just  
22 getting under way, as well as their interconnection  
23 proceedings dealing with the connecting new generation to  
24 transmission systems. Those will be written up by the  
25 members shortly. All of those will require, at some point



1 in time, a filing with FERC, so we're preparing that in  
2 those proceedings on an ongoing basis.

3 That at this point concludes the management's  
4 report, unless the members have any questions.

5 MR. WILLISON: Quick question, Gary, in the  
6 vacancies is there any individual niche, expertise we're  
7 seeking that we don't have that we are having to source from  
8 the outside or not get involved with?

9 EXECUTIVE DIRECTOR HEATH: That's a good  
10 question. It is actually adding to the entities that we  
11 have no new categories per se, other than I will note that  
12 we have an arrangement for a position on a two-year loan  
13 dealing with our IT work at the EOB, which also is a market  
14 position dealing with analyzing and processing a large  
15 amounts of information or data that's provided by the ISO.

16 Our biggest problem right now is finding a  
17 traditional market analyst or economist who can step in and  
18 have knowledge of what's going on in California's markets.

19 Right now all we're doing is adding to  
20 existing classes of individuals, engineers, lawyers, and  
21 economists; very hard to find, as I have mentioned, and it  
22 certainly is causing a strain on all workload. We're having  
23 to shift quite a bit to save --

24 CHAIRPERSON KAHN: I'd like to introduce Anna  
25 Ferrera, who is with Senator Bowen's office, and Carolyn

1 Veal-Hunter, who is representing Assemblyman Wright today.

2 Thank you very much for coming.

3 Ms. Hunter, do you have opening remarks of any  
4 sort?

5 MS. VEAL-HUNTER: No opening remarks.

6 CHAIRPERSON KAHN: Thank you. Regarding the  
7 budget committee, I would like to thank Mr. Willison for  
8 agreeing to take over that responsibility. Prior to him  
9 doing that I did, on behalf of the EOB, review the budget  
10 with the staff and I did attend the Senate subcommittee on  
11 that subject. I also reviewed all of the staffing positions  
12 with Gary and Erik, and I'm very satisfied, and I told  
13 Senator Peace this in the committee, that the staffing  
14 levels are acceptable and sensible and our biggest problem  
15 is filling the vacancies.

16 Some of the problem we're experiencing has to  
17 do with our status as a start-up agency because we have to  
18 establish certain personnel practices within state  
19 regulations, so we shouldn't have as many problems in the  
20 future.

21 Okay. If there are no further questions I  
22 would invite everyone's attention to the last tab on the  
23 board, the last tabs which do set forth the items management  
24 is working on, and if I hear questions at any point about  
25 those things.

1                   Mr. Saltmarsh?

2                   MR. SALTMARSH: Mindful of the matters before  
3 the board today and your desire to conclude the meeting at a  
4 reasonable hour, given it's Good Friday, I have three items  
5 that I specifically want to bring to the attention of the  
6 board in the meeting today and several other items that were  
7 potential for discussion, which I will, instead, with your  
8 concurrence, include in a written summary of report on some  
9 of the things going on at FERC. I will follow up with in  
10 the next few days.

11                   The three items that I wanted to make sure  
12 directly got before the board today were, first, an update  
13 on a directive that I was given at the last meeting to  
14 engage in consultation with the Public Utilities Commission  
15 and the Energy Commission regarding the memorandum of  
16 understanding between the Electricity Oversight Board and  
17 the Public Utilities Commission for representing the state  
18 interests before the FERC and similar forums.

19                   I had occasion to meet with President Lynch of  
20 the Public Utilities Commission. We met for approximately  
21 an hour to discuss the memorandum of understanding and  
22 coordination issues. She then had to go on to another  
23 meeting.

24                   Coming out of that what we basically discussed  
25 was her perspective to date and my perspective on how we had

1 gotten to the current state of coordination that the  
2 agencies have, including where the memorandum of  
3 understanding came from and what the intent behind it was.

4                   Her communication to me was that she was still  
5 engaged in consultation with her staff so she felt that we  
6 had had a very productive meeting. She was certainly of a  
7 goal of having very close coordination with the Electricity  
8 Oversight Board but was not yet prepared to take a personal  
9 position in the details that were reflected in the  
10 memorandum of understanding before she could work with her  
11 staff some more. Immediately following --

12                   CHAIRPERSON KAHN: Did she say when she might  
13 be able to get back to you?

14                   MR. SALTMARSH: I've been in communication  
15 with her staff. I hoped to get an update before this  
16 meeting. It was suggested it might be yesterday, but they  
17 were not able to come up with that. I'm very hopeful that  
18 sometime next week we'll be able to have better feedback  
19 from the Public Utilities Commission.

20                   The Energy Commission, on the third working  
21 day following our last meeting I was in touch with the  
22 Energy Commission, and they expressed that they very much  
23 wanted to meet and provide some perspectives and thoughts  
24 about the current memorandum of understanding and the Energy  
25 Commission's interests in it.

1                   I have endeavored to schedule that. On the  
2 Energy Commission side they have a group of at least four  
3 people they want to have involved in that, and there have  
4 been difficulties in setting that up. It's currently set up  
5 for the 25th of this month, which was the earliest date we  
6 were able to arrange for that group that they would like to  
7 have in the discussion, so I am still awaiting any substance  
8 on that.

9                   CHAIRPERSON KAHN: Thank you. And this is  
10 obviously something high on our radar screen.

11                  MR. SALTMARSH: Two other items that I wanted  
12 to give you a brief update on are two non -- two litigation  
13 matters that are not appearing before the FERC but are FERC  
14 related. They are both matters that are or have been in the  
15 District of Columbia Circuit Court Of appeals with the  
16 Electricity Oversight Board as a party.

17                  One of these is a matter that I briefed the  
18 Oversight Board on many times but because of the pace of  
19 cases in the District of Columbia Circuit, it was a  
20 different Electricity Oversight Board.

21                  There has been a case pending for the last two  
22 years which has dealt with the scope of FERC's jurisdiction  
23 in relation to entities like the California Power Exchange  
24 and another entity doing business in California as the  
25 Automated Power Exchange.

1                   The Electricity Oversight Board was a party to  
2 that proceeding because several state interests were  
3 implicated besides state and federal jurisdictional issues.  
4 The case had originally included whether or not entities  
5 performing functions like that carried out by the Power  
6 Exchange would be subject to an administrative charge that  
7 the FERC levies to collect its own operating expenses and  
8 charge us those against transactions in electricity in  
9 interstate commerce.

10                   Originally the FERC had expressed an intention  
11 to charge this volumetric charge against all transactions  
12 through the Power Exchange, which would have imposed a very  
13 substantial charge onto the Power Exchange in the millions  
14 of dollars that would have required substantial adjustment  
15 of the Power Exchange's budget and therefore administrative  
16 charge for providing its own service.

17                   That issue was actually booted out of the D.C.  
18 circuit case shortly before it came to trial or hearing.  
19 The FERC agreed, at least in the interim, not to levy that  
20 charge against entities like the California Power Exchange.

21                   And so both the Power Exchange and the  
22 Electricity Oversight Board's part of the case fell away  
23 virtually at the last minute a few days before the case was  
24 set for hearing.

25                   Automated Power Exchange proceeded on the

1 jurisdictional issue of whether it was subject to FERC's  
2 jurisdiction for the kind of service it was offering, and  
3 the D.C. Circuit ruled on March 7th that FERC's assertion of  
4 jurisdiction was within FERC's -- was within FERC's  
5 jurisdiction, was within their discretion.

6 I phrase it that way because the court's  
7 opinion seems to suggest that FERC might have engaged in  
8 forbearance as to whether it thought it needed to assert  
9 jurisdiction over an entity like that, but the statute was  
10 broad enough that it had discretion whether or not that was  
11 necessary in the public interest.

12 The second case I would like to make you aware  
13 of, if you are not -- I think a couple of the legislative  
14 staff members who are present are aware of this -- is that I  
15 know you are aware there was a federal appeal case pending  
16 for some several years. It is, in fact, still pending but  
17 is in abeyance that related to the dispute between the FERC  
18 and the state of California over governance issues and over  
19 jurisdiction.

20 That was resolved as between the Federal  
21 Energy Regulatory Commission and the state of California  
22 through some negotiation and the enactment of Senate Bill  
23 96.

24 Following that an entity, an organization  
25 called the Western Power Trading Forum, appealed to the D.C.

1 Circuit seeking overturn of FERC's order that accepted SB 96  
2 as a settlement. And that is up on appeal right now, so the  
3 Western Power Trading Forum case is an attack on FERC's  
4 declaratory order that found that SB 96 resolve the dispute  
5 between the state and federal government.

6                   It's fair to characterize that Western Power  
7 Trading Forum's position in this case is that FERC was going  
8 beyond their allowable discretion in finding that SB 96 was  
9 acceptable, that FERC should have found that its  
10 jurisdiction required it to retain the maximum authoritative  
11 control over these areas, and somehow by accepting SB 96 and  
12 settling, FERC has exceeded to giving away some authority  
13 that they did not have the ability to give away.

14                   The Electricity Oversight Board is an  
15 intervenor party in this case as well, and we just recently  
16 received an order from the District of Columbia Circuit  
17 regarding the briefing schedules for both the appellant, the  
18 respondent, which is the Federal Energy Regulatory  
19 Commission, and the intervenors, which are ourselves, the  
20 Electricity Oversight Board, the California Independent  
21 System Operators, Pacific Gas & Electric, and someone who is  
22 slipping my mind at the moment.

23                   CHAIRPERSON KAHN: In regard to the former  
24 case was there assertion from FERC?

25                   MR. SALTMARSH: No.



1                   CHAIRPERSON KAHN:  So that's final?

2                   MR. SALTMARSH:  To the best of my knowledge  
3  it's final.  I can check again, but I've received no notice.

4                   CHAIRPERSON KAHN:  As I understand you folks  
5  are going to be pretty busy in Washington for the next  
6  couple of weeks.

7                   MR. SALTMARSH:  I'm afraid that is the case.  
8  Indeed in the last three days I've received three different  
9  notices from FERC judges ostensibly ordering my appearance  
10 at FERC next week, two of them on the same day on Tuesday,  
11 so we have several filings going on and possibly several  
12 appearances.

13                  CHAIRPERSON KAHN:  Any questions?

14                  MR. ROZSA:  Erik, who is the Western Power  
15 Trading Forum?

16                  MR. SALTMARSH:  Western Power Trading Forum is  
17 an organization -- relatively recent organization for  
18 approximately within the last two to three years since, to  
19 my knowledge, since the California restructuring, consists  
20 of a variety of entities that are primarily wholesale  
21 traders in electricity, by my experience.

22                  Rather than giving you what might be an  
23 unrepresented list of three or four members that I could  
24 name off the top of my head, what I would do is commit  
25 within by the end of the day I can get you a list of all the

1 members of Western Trading --

2 CHAIRPERSON KAHN: Can you do that for all of  
3 us?

4 MR. SALTMARSH: Yes.

5 MR. ROZSA: Is the Power Exchange a member of  
6 the Western Power Trading Forum?

7 MR. SALTMARSH: I believe they are.

8 MR. SLADOJE: Yes, we are. We did not vote  
9 for the actions undertaken, by the way.

10 CHAIRPERSON KAHN: Any questions? Okay.  
11 Thank you very much.

12 Nothing else to add, Mr. Saltmarsh?

13 MR. SALTMARSH: No. Unless there are other  
14 questions, I would commit to give you a counsel report on  
15 the status of some of the FERC proceedings and allow that we  
16 can move on to the other items so you can have a chance to  
17 get through the agenda.

18 CHAIRPERSON KAHN: Great. Mr. Heath, next is  
19 the governance matters.

20 EXECUTIVE DIRECTOR HEATH: Yes, Mr. Chairman.  
21 We're hoping to get a resolution on some of these issues  
22 today.

23 I believe the first item up today will be the  
24 bylaw amendments related to the performance of SB 96. On  
25 that Mr. Saltmarsh will represent the staff on that and Mr.

1 Richard Jacobs will be representing Cal ISO.

2 As Mr. Jacobs comes forward I will mention to  
3 the members that since our last meeting we have held  
4 meetings with the legislative staff, including the Power  
5 Exchange attorneys, as well as the ISO attorneys. Those  
6 occurred on the 4th of April and on the 13th of April trying  
7 to resolve some of these issues, just to let you know we've  
8 been working on this quite diligently.

9 CHAIRPERSON KAHN: That was the comment I was  
10 going to make. Last time we made some requests of the Power  
11 Exchange -- good morning, Mr. Jacobs, welcome back.

12 MR. JACOBS: Thank you.

13 CHAIRPERSON KAHN: -- and of the ISO, and best  
14 I've been able to gather there was a lot of work that was  
15 put into this in the last month. We'd like to express our  
16 appreciation for all the efforts you've taken and the  
17 clarity in which these items are presented.

18 Mr. Jacobs, would you like to make a few  
19 comments?

20 MR. JACOBS: In the interest of time in moving  
21 quickly, I would like to call your attention to the fact  
22 that we tried to present the bylaw amendments in a number of  
23 different ways for your consideration. We've tried to block  
24 them out by various topics.

25 So I call your attention to the amendments

1 that are marked as Cal ISO A, numbers 1 through 5, as those  
2 being required by SB 96. Those are the new categories that  
3 we've worked out discussions with the Oversight Board staff.

4 CHAIRPERSON KAHN: For the members, this is in  
5 number four, and it's behind the second tab number, number  
6 two, what we call Appendix A.

7 MR. JACOBS: I want to point out the changes  
8 labeled as category B are those that touch on matters that  
9 under SB 96 are not expressly part of the state's  
10 jurisdiction but because of the technical provisions of our  
11 bylaws that require -- for our approval, we're asking those  
12 to be considered today as well.

13 CHAIRPERSON KAHN: Okay. I would suggest that  
14 we take up these as follows: We have a number of bylaws  
15 that are required by SB 96, and I take it from the staff  
16 recommendation was for approval of all of those.

17 Do we have any discussion about that? I'd  
18 indicate a motion as to those, the ones that are required.

19 MR. WILLISON: I would move those. I believe  
20 there's five shown as A1 through A5 for approval.

21 CHAIRPERSON KAHN: I would second that.

22 And all in favor? So those pass now two to  
23 nothing.

24 The second group are the ones that are for  
25 technical purposes only but require -- but require our

1 actions; is that right?

2 MR. JACOBS: Yes.

3 CHAIRPERSON KAHN: You agree with that, Mr.

4 Saltmarsh?

5 MR. SALTMARSH: I do.

6 CHAIRPERSON KAHN: Any discussion on those?

7 These are Appendix A the ones marked B.

8 All in -- we need a motion.

9 MR. WILLISON: I would move those marked B1

10 through B6 in Appendix A.

11 CHAIRPERSON KAHN: And second that.

12 And all in favor, aye? And those, then, pass.

13 Now we have another group, and that is those

14 that are not required. And as I understand it, those fall,

15 now, into two categories. One group of them are those that

16 the staff has recommended approval on and there is another

17 group of those that the staff has recommended deferral on.

18 The first question I would have for you, Mr.

19 Jacobs, is do you take any issue with the notion of

20 deferring the ones the staff recommended deferral?

21 MR. JACOBS: I do not. But I had asked that

22 the Oversight Board provide some guidance, and I can bring

23 back to our governing board for voting next month, should

24 there be any desired changes in those provisions, we have to

25 have an idea of the direction that you would like us to

1 consider.

2 CHAIRPERSON KAHN: The first group I would  
3 like to ask the board to consider, then, are the ones that  
4 are in Appendix A, C, D, E, and F that were recommended for  
5 approval.

6 And are there any questions -- on Appendix C  
7 we have the recommendation of the staff.

8 Does anybody have any questions about the ones  
9 that have been recommended for approval? I'll entertain a  
10 motion.

11 MR. WILLISON: I don't have them  
12 cross-referenced.

13 MR. ROZSA: I'm having trouble.

14 CHAIRPERSON KAHN: If you take Appendix C and  
15 then you --

16 MR. WILLISON: In order to cite them by number  
17 I wouldn't --

18 CHAIRPERSON KAHN: I tell you what, we'll  
19 parch them for you. They actually turn out to be -- if you  
20 take a look at the boxes.

21 MR. JACOBS: In fact the list is E1, E2, E3,  
22 and F5.

23 CHAIRPERSON KAHN: Are the ones that are  
24 recommended for deferral?

25 MR. JACOBS: I think those are recommended for

1 deferral.

2 (Discussion off the record.)

3 CHAIRPERSON KAHN: Looking at Appendix A,  
4 category C through

5 MR. ROZSA: Now we have C.

6 CHAIRPERSON KAHN: Through F.

7 MR. ROZSA: D, E, and F.

8 CHAIRPERSON KAHN: And in regards to those we  
9 have this chart.

10 MR. ROZSA: That chart is --

11 CHAIRPERSON KAHN: Appendix C.

12 MR. WILLISON: Under tab four.

13 CHAIRPERSON KAHN: Okay. And as to those, we  
14 have two categories. We have the ones that have been  
15 recommended for approval and the ones that have been  
16 recommended for deferral.

17 MR. ROZSA: All right. All right. Now, I'm  
18 finding things, okay.

19 CHAIRPERSON KAHN: Great. Carolyn, you --

20 MR. ROZSA: What's happening here is in  
21 Appendix C the amendments are listed out of order.

22 CHAIRPERSON KAHN: They are listed in a  
23 different order.

24 MR. ROZSA: In a different order, so what I  
25 need to do is to find particular cases --

1                   CHAIRPERSON KAHN: Sure. Take your time.

2                   MR. WILLISON: Mr. Jacobs, you cited those

3 ones that you had were marked for recommended approval.

4                   MR. JACOBS: Yes. All but the following four

5 were recommended for approval. The four were E1, E2, E3,

6 and F5.

7                   John, the Appendix C is done in order of the

8 bylaws, so if you want to flip back and forth --

9                   MR. ROZSA: Just so we don't look like monkeys

10 up here.

11                  CHAIRPERSON KAHN: Okay? Do you want to do

12 with that one, John?

13                  MR. ROZSA: No. I wanted to see what is

14 summarized here. I'm familiar with -- I'd like to have a

15 presentation on the --

16                  CHAIRPERSON KAHN: Before we do that, Senator

17 Bowen and Mr. Willison, we're talking about C.

18                  MR. WILLISON: I move approval of the changes

19 cited in C.

20                  CHAIRPERSON KAHN: Okay, second.

21                  All in favor, aye? We've gotten C.

22                  SENATOR BOWEN: Move the indulgence of the

23 chair, I have to go back to B for a moment, now that I know

24 where I am in the paper because the chart that you have

25 provided under this page 7 of the summary of items, not the



1 bylaws, regarding the appointment of the chairperson of the  
2 ISO, the staff recommendation is that the board defer acting  
3 on the amendment, but I thought that all of the B items were  
4 just approved.

5 CHAIRPERSON KAHN: That was a mistake, which I  
6 was going to catch but you caught it before I did. And so  
7 I'd like to -- I take it you don't --

8 Mr. Jacobs, the item that the Senator is  
9 referring to is on page 7 of your summary and the change  
10 relates to the appointment of the chair.

11 MR. JACOBS: Actually, the description of the  
12 amendment is above the staff recommendation, and that is E1.  
13 The B6 below is referring -- it's carryover on the page, so  
14 E1 the staff is not recommending approval.

15 SENATOR BOWEN: So this is in the wrong place?

16 MR. JACOBS: There's a page break in there.

17 CHAIRPERSON KAHN: You are right, but I read  
18 it wrong also. We are, in fact, on track. All the Bs are  
19 okay. All the Cs are okay, and all the As are okay. Now  
20 we're on the Ds. We're doing a lot better than we did last  
21 time.

22 Mr. Rozsa?

23 MR. ROZSA: I'd like to have a presentation on  
24 why the participation takes threshold should be -- I would  
25 like to have a presentation on why the participating takes

1 threshold should be changed from fifty percent to  
2 twenty-five percent of transmission, what the thinking  
3 behind that is, why that's a good thing to do, what the  
4 consequences of it are?

5 MR. JACOBS: The thought when my board adopted  
6 that change was the fifty percent threshold was seen by some  
7 entities out of California as being a difficult threshold to  
8 reach. The idea is to encourage other states to at least  
9 consider joining the ISO and believe they would be impotent  
10 to our governance structure. Any final governance structure  
11 would be subject to approval by this board and whatever  
12 interstate compact or agreement was made.

13 Frankly much of that change and the other  
14 change and changing the references from the Oversight Board  
15 to that to an oversight authority were meant to make the ISO  
16 appear to be more friendly and welcome to receiving and  
17 treatise from other states to possibly come and --

18 MR. ROZSA: Why would a state be willing to  
19 only commitment twenty-five percent of its transmission if  
20 they wanted to have a state-to-state agreement? What are  
21 the circumstances under which that might happen?

22 And when you are referring to "entities," are  
23 you referring to state entities that are making these  
24 representations or are you referring to regulated entities  
25 who are making these representations?

1                   MR. JACOBS:  Actually they are regulated  
2 entities that would be contributing transmission to the ISO.

3                   MR. ROZSA:  Does this make it possible for a  
4 utility within the state to participate in the ISO without  
5 consent of the state itself?

6                   MR. JACOBS:  I don't know the answer to the  
7 question.

8                   MS. LARSON:  Can I help?  Robin Larson,  
9 California ISO.  That is not, in fact, the thinking behind  
10 this change.

11                  MR. ROZSA:  I'd like to understand.

12                  MS. LARSON:  That's not relevant to that.

13                  MR. ROZSA:  Please explain the thinking behind  
14 the change.

15                  MS. LARSON:  I think Rich just did but maybe  
16 it's that some utilities aren't willing to give up their  
17 transmission and some are.

18                  MR. ROZSA:  Why would we make an agreement  
19 with someone that wouldn't?

20                  MS. LARSON:  We wouldn't.

21                  MR. ROZSA:  Why would we lower the threshold?

22                  MS. LARSON:  Maybe some will and some won't.  
23 It's still advantageous to have those good will.

24                  MR. ROZSA:  My question is:  Here is the ISO  
25 proposing to lower the threshold for what it takes another

1 state to join; okay? Is that something that the ISO should  
2 be -- is that a decision the ISO should be making  
3 unilaterally?

4 MS. LARSON: This change is before you for  
5 approval as well; correct?

6 MR. ROZSA: I understand that. That's my  
7 question.

8 MR. WILLISON: Isn't this for a utility who  
9 might not control more than forty percent, or you know,  
10 actually more than twenty-five percent. But let's say they  
11 only control forty percent but they are willing to join,  
12 this would allow them to join so they wouldn't have to have  
13 fifty percent of the transmission market.

14 MS. LARSON: That's correct. We're not trying  
15 to affect the decision making between states and how we get  
16 there. It's just to be a little more open in case we have a  
17 situation where utilities in another state are willing to  
18 commit control of their assets and some aren't.

19 This is in no way getting to the function of  
20 having this agreement take place. It's just trying to be  
21 flexible. We thought it appropriate. We did not find it  
22 controversial.

23 However, it is before you for approval, so if  
24 you have an issue with it, any questions and concerns, now  
25 is the time to raise them.

1                   MR. JACOBS: And the only affect of this  
2 change in the definition, if a utility from another state  
3 were to commit twenty-five percent of that state's  
4 transmission to the ISO, it would permit entities from that  
5 state to be able to qualify to participate in elections of  
6 board members.

7                   So for example, if a utility from Nevada gave  
8 control over that amount, the entities that participated in  
9 rate-related proceedings for Nevada will be able to  
10 participate in the elections and nominations of members of  
11 the ISO board. Right now it's limited only to entities from  
12 California. That's how the division actually works through  
13 the bylaws.

14                  MR. ROZSA: Doesn't that presuppose that if  
15 you are having a utility from Nevada that you have a  
16 continuation of the stakeholder board?

17                  MS. LARSON: This has nothing to do with the  
18 makeup of the board.

19                  MR. ROZSA: The utility has a vote. As much  
20 as utilities have votes within California you are talking  
21 about a stakeholder board.

22                  So what you are doing is you are lowering the  
23 threshold, so now utilities from Nevada can participate, and  
24 now they have voting rights on a stakeholder board, which is  
25 established de facto by the fact that if you don't have a

1 state agreement but you have a utility agreement to  
2 commission.

3 MS. LARSON: Well, if we go back to the  
4 provisions of SB 96, I believe an agreement with a  
5 participating state requires some kind of legal agreement  
6 between the states not between the utilities.

7 This has absolutely nothing to do with  
8 anything but opening up possibilities for partial state  
9 multiagreements, if you will. There's no change in the  
10 governance matters that would need to take place if we were  
11 to join with another state.

12 MR. ROZSA: I just find it a little  
13 inappropriate for the ISO to be establishing thresholds for  
14 participating states.

15 CHAIRPERSON KAHN: Any other discussion?

16 MR. WILLISON: Just as it's written out it  
17 should be fifty percent, so it could still the way it's  
18 written out not even be the entire state.

19 MS. LARSON: That's correct.

20 CHAIRPERSON KAHN: Any other discussions?  
21 Does the staff wish to make a comment? You don't have to.  
22 Okay.

23 Mr. Rozsa, do you have any comments on D2?

24 MR. ROZSA: No.

25 CHAIRPERSON KAHN: Okay. Mr. Willison, the

1 ball is in your court.

2 MR. WILLISON: We don't have a lot of members  
3 here today.

4 CHAIRPERSON KAHN: Just you and me.

5 MR. WILLISON: I would move approval of D1 and  
6 2.

7 CHAIRPERSON KAHN: Second. All in favor?  
8 Aye.

9 Mr. Saltmarsh, will you be kind enough to  
10 process the comments that Mr. Rozsa made, and I think you  
11 know his obligation is very important to the extent we need  
12 to be worried about addressing them in the future.

13 MR. SALTMARSH: I will be mindful of them and  
14 try to address comments along those lines.

15 CHAIRPERSON KAHN: That moves us to E and E1,  
16 2, and 3. The staff have indicated that they wanted to  
17 defer, but Mr. Jacobs, you indicated to the one Senator  
18 Bowen was talking about. Do you want to comment on E1, 2  
19 and 3?

20 MR. JACOBS: I would. As you are aware the  
21 ISO board passed a provision that would give the board the  
22 right to appoint the chair of the governing board from among  
23 its members or from outside.

24 Based on conversations with legislative and  
25 EOB staff, we believe that there is an appropriate role for

1 to Oversight Board in that process, and we have discussed  
2 the possibility of floating before you, and if you find that  
3 acceptable then floating back to our board, the possibility  
4 of a system whereby the governing board of the ISO would  
5 select a chair from among its own members and that name  
6 would be submitted to the Oversight Board, who could choose  
7 not to confirm that chair.

8                   Again, as ISO management will have the ability  
9 to make that change unilaterally, but if that would be a  
10 provision that would be acceptable from your perspective,  
11 that information needs to convey back to our board. We have  
12 put a notice on our website and sent out to people on our  
13 notice list that we consider bylaw members at our meeting  
14 next month at the end of May, which at that point we may  
15 have further members to bring back to you for consideration.

16                   SENATOR BOWEN: Explain to me, please, the  
17 desirability of any change and how the chair is selected?

18                   MR. JACOBS: At this time the chair is  
19 selected by the Oversight Board, but as a matter of practice  
20 the ISO governing board has the right to suggest a  
21 recommendation. This would be a formalization of the fact  
22 that the ISO governing board will be able to formally select  
23 its chair for submission to the Oversight Board or a  
24 not-to-confirm decision.

25                   SENATOR BOWEN: I guess I understand why,



1 given the fact that the Electricity Oversight Board didn't  
2 meet for, what was it? A year and a half or something? Why  
3 the ISO wound up making the recommendations to appoint its  
4 own chair.

5 But now you have a board that is functioning  
6 and is meeting, and it seems to me that if you have an  
7 entirely different discussion now and the rationale "That's  
8 the way it's been done," and it's been done for very  
9 pragmatic reasons. There wasn't a chair.

10 But I think you have to start again with the  
11 analysis what was intended by giving the EOB that -- what  
12 role does that play in the system of balances of power and  
13 how is that affected by the proposed change?

14 MR. JACOBS: The system of balance of power is  
15 where the greatest concern comes between the state  
16 interest's and the federal interest, which is unfortunately  
17 not as clearly designated as, you know, the question of  
18 proper.

19 Appointment of a chairperson was not something  
20 specifically addressed in SB 96 or in FERC's declaratory  
21 order. In fact, as we look at this provision, we notice  
22 that the one thing that is, perhaps, most central and is the  
23 current ability of the Oversight Board in selecting the  
24 chair to be able to select someone from outside the current  
25 governing board.

1                   If SB 96 and the FERC declaratory order were  
2 intended, and apparently they were intended, to create a  
3 balance between state control and non-state controlled  
4 interest, the ability of anyone to choose a chair from  
5 outside of those current board members could affect that  
6 balance.

7                   SENATOR BOWEN: But there's more than one  
8 issue here; right? First there's the question of who can be  
9 the chair. Does it have to be someone who serves on the ISO  
10 governing board, or can it be, you know, the nephew of  
11 someone who is politically important or whatever it is? The  
12 second issue is how does that person get the physical -- and  
13 those issues are for separate discussion.

14                  I think the stronger case can be made that  
15 going outside the governing board doesn't make sense.

16                  MR. SMUTNY-JONES: Jan Smutny-Jones. I'm the  
17 chair of the ISO. I just wanted to correct what may be a  
18 misperception of how I ended up in my current role.

19                  There was a sitting Oversight Board that had  
20 great difficulty in finding someone foolish enough to  
21 volunteer their service to serve as chair of the ISO board.

22                  CHAIRPERSON KAHN: That's why we made you for  
23 life.

24                  MR. SMUTNY-JONES: I think that way be it.  
25 But at any rate, the ISO board did vote to nominate me or to

1 be the chair of the ISO board, and that was submitted to the  
2 Oversight Board, basically for confirmation.

3                   So basically the relationship that Mr. Jacobs  
4 described is, in fact, what brought us to our current state  
5 of affairs.

6                   CHAIRPERSON KAHN: I understand we're here to  
7 discuss the float not a vote; right?

8                   MR. JACOBS: That's correct.

9                   CHAIRPERSON KAHN: And in that regard let me  
10 make a couple of observations: It seems to me that the old  
11 way of doing it is that the ISO recommends someone and then  
12 the EOB formally selects; isn't that right?

13                  MR. JACOBS: Yes.

14                  CHAIRPERSON KAHN: And what you are suggesting  
15 is that the ISO formally chooses someone and the EOB  
16 declines or not that choice; right?

17                  MR. JACOBS: Yes.

18                  CHAIRPERSON KAHN: It seems to me in your  
19 discussions about this you might consider whether there  
20 wouldn't be more public confidence in the ISO and the  
21 process if you left it the way it is, even though it makes  
22 very little practical difference.

23                  From a practical standpoint you will still  
24 make the recommendation, but from the public's standpoint  
25 the public will have a -- especially given the structure of

1 the ISO, you will have a stakeholder board that the ISO can  
2 say had its chairperson formally selected by EOB. If that's  
3 not an interest that is particularly important, then perhaps  
4 we should make the change.

5                   Second observation I'll make is that from this  
6 member's perspective, in any event, the legislative staff  
7 and the Senator's views are and Assemblyman Wright's views  
8 will be very important about it.

9                   So to the extent a change like that is  
10 advocated, I would be very heavily influenced by what the  
11 Senator and the Assemblyman think about this, so I would  
12 suggest that in the deferral stage we get our ducks in line  
13 in that regard because ultimately we here at EOB are just  
14 completely a creation of their legislative scheme and we  
15 don't want to violate their vision of it.

16                   Does that give you a float?

17                   MS. LARSON: Mr. Kahn, can I ask a clarifying  
18 question?

19                   As I understand the current existing practice  
20 and law would allow for the EOB to appoint somebody that's  
21 not on the board from outside the board, is that your  
22 intention?

23                   CHAIRPERSON KAHN: About this, Robin, and many  
24 things you know more than I do, and I would have to ask Mr.  
25 Saltmarsh for an interpretation.

1                   MR. SALTMARSH: It has been the case and is  
2 the case under the existing bylaws that the appointment of  
3 the chair by the EOB could be made from within the existing  
4 membership or an outside person.

5                   And if an outside person, then that  
6 chairperson would add one seat to the sides of the governing  
7 board and would, as was discussed then, potentially reflect  
8 one more state-associated seat on the governing board.

9                   Following the last meeting, because there was  
10 some discussion of the back and forth that had occurred in  
11 some of the discussions with FERC, I, and I think a lot of  
12 other people, used what channels they had to try to confirm  
13 our belief as to FERC, key policy staff, and commissioners  
14 thinking on this matter.

15                  I actually had two contacts because mine -- I  
16 had a contact very early. The ISO, I believe, had a contact  
17 with FERC, the Power Exchange did, and they had a lot more  
18 detail than I did, so I went back.

19                  I can confirm from what Mr. Rozsa and Senator  
20 Peace said at the last meeting is that FERC expressed that  
21 this had not been an item of specific consideration in their  
22 earlier negotiations or indeed in their earlier orders that  
23 found specific fault with the California structure.

24                  My first conversation with FERC following the  
25 last meeting, they basically said they really never thought

1 about it. They didn't have a position. I heard back  
2 indirectly about two weeks later that maybe I should check  
3 back with FERC because maybe they were forming a position.

4               So I tried to check back, and what I got added  
5 to my earlier perception was just that someone at FERC had  
6 come up with this idea of well, under the existing structure  
7 if the EOB consistently used its appointing power to appoint  
8 an outside person and create one more seat on the governing  
9 board than the base number, then that might be a concern  
10 because they did think there was a balance in the number of  
11 seats.

12               CHAIRPERSON KAHN: Sounds like they were  
13 answering a hypothetical question.

14               MR. SALTMARSH: I think they were.

15               CHAIRPERSON KAHN: Mr. Winter and --

16               MR. WINTER: Could I just give two seconds and  
17 maybe I can clear this up?

18               When we initially established the board we --  
19 the Oversight Board had jurisdiction over every selecting  
20 member or they approved every member that sat on the board.  
21 There was a concern that we could not get somebody from the  
22 board to act as the chair.

23               So at that time what we said was "Okay, we'll  
24 have the Oversight Board select the chair and if we cannot  
25 get someone to serve from that volunteer stakeholder board,

1 then we would give the Oversight Board the authority to  
2 select that individual."

3                   Since that time we have now moved to an  
4 agreement where half the board is selected by FERC and half  
5 the board is selected by the EOB, so to leave the ability of  
6 the EOB to now select a third chairman causes people to  
7 wonder whether or not they, in fact, made a fair deal, so to  
8 speak, in the negotiations.

9                   So I think all we were trying to do is say,  
10 "Look, to keep that balance we'll now move to selecting  
11 somebody out of the stakeholder board and leave with the EOB  
12 the authority to confirm that without upsetting the balance  
13 that was developed between the state and the federal  
14 government in the selection of the members who sit on the  
15 board."

16                   CHAIRPERSON KAHN: Senator Bowen?

17                   SENATOR BOWEN: At the risk of dragging out  
18 what is clearly not the most important issue we have to deal  
19 with today, it seems to me that there is some value in  
20 letting the EOB retain the ability to appoint. I think it's  
21 probably never going to happen.

22                   However, if you get into a situation where  
23 there is a great concern from the public about the actions  
24 to be taken by a stakeholder board, that could be a  
25 corrective mechanism. And in the situation you've just

1 described to me, my first reaction is "Well, you've got this  
2 balance of FERC and state appointees. What's the  
3 possibility for, at some point, a 50/50 split?" And at that  
4 point it might be very useful to bring in someone to be the  
5 tie breaker.

6 I just think this is a really unimportant  
7 issue. I don't see anything wrong with the way things are  
8 right now. I don't see a good reason to change it. I have  
9 a feeling that the ISO, unless something is really awry,  
10 going to work formally or informally with the EOB to make  
11 this designation, and there are good reasons for retaining  
12 --

13 CHAIRPERSON KAHN: I think your comments about  
14 the timing are well taken. I'll entertain a motion on a --

15 MR. ROZSA: Can I make a comment?

16 CHAIRPERSON KAHN: Of course, Mr. Rozsa.

17 MR. ROZSA: The agreement -- SB 96, our  
18 agreement with FERC was that we wouldn't change the  
19 structure of the boards as they existed as of the date the  
20 agreement -- and at the time the PX had selected a person  
21 who was not from the stakeholder board as a chair. The ISO  
22 hadn't done that, so the precedent has been established at  
23 the PX for such a chair to be chosen but not at the ISO.

24 So in keeping with our agreement with FERC, it  
25 makes sense to not create the impression at FERC in changing



1 these amendments, that we are trying to change the structure  
2 of the ISO by allowing the possibility of our selecting a  
3 non-board member as chair.

4                   So it -- probably the most practical thing is  
5 to go with the structure that we have right now,  
6 conditioning -- in other words, conditioning the appointment  
7 power on the restrictions in SB 96.

8                   That means that a -- that the ISO chair would  
9 have to come from the stakeholder board; okay? And in other  
10 words, that the EOB would have to appoint the chair from the  
11 stakeholder board; okay?

12                   But in practical -- consistent with how the PX  
13 has done it could appointment independent, it could appoint  
14 a chair from outside the board.

15                   CHAIRPERSON KAHN: As I understand what we  
16 have in front of us that issue is not raised. The issue, if  
17 we're talking about appointing, the issue is not joined  
18 about whether you or we can appoint somebody from outside  
19 the board. That's not joined.

20                   MR. JACOBS: That's correct. There is not the  
21 impression.

22                   CHAIRPERSON KAHN: This is not joined. It's  
23 not before us. There's a motion, I hope, to defer E1  
24 through E3.

25                   MR. WILLISON: Yes. I think we've given Mr.

1 Jacobs feedback what we asked for, not that he wanted, but  
2 he asked for it.

3 MR. JACOBS: Not at all.

4 MR. WILLISON: So move E1 through 3 for  
5 deferral.

6 CHAIRPERSON KAHN: Second. All in favor, aye?  
7 Okay, that passes, two to nothing.

8 Do we have any discussion about E4 and E5?  
9 Those were the ones you asked to be approved. Seeing no  
10 discussion --

11 MR. WILLISON: Move approval of E4 and 5.

12 CHAIRPERSON KAHN: Second.

13 MR. ROZSA: Could I --

14 CHAIRPERSON KAHN: Absolutely.

15 MR. ROZSA: We deferred E1. What have we done  
16 with E2 and 3?

17 CHAIRPERSON KAHN: E1, 2, 3 deferred. E4, 5  
18 passed. E1, 2, 3 are deferred, and E4 and 5 have been moved  
19 to be passed.

20 MR. ROZSA: Okay.

21 MR. JACOBS: I would like to clarify  
22 something: On E2, which was the provision regarding terms  
23 to be established by the governing board, that was intended  
24 to be adopted in agenda after you had already approved the  
25 appropriate staggering of EOB appointed members. There was

1 no intention on the part of the ISO to not give EOB  
2 authority to approve the staggering for EOB appointing  
3 members.

4 CHAIRPERSON KAHN: Thank you.

5 All in favor of passing E4 and 5?

6 MR. WILLISON: Aye.

7 CHAIRPERSON KAHN: That passes two to nothing.

8 We're on F, and F1 through 5 has been  
9 recommended for approval.

10 Is there any discussion about any of those?

11 (Discussion off the record.)

12 CHAIRPERSON KAHN: What about six?

13 MR. SALTMARSH: Six was recommended for  
14 approval.

15 CHAIRPERSON KAHN: So I just read it wrong.

16 MR. WILLISON: I move approval of F1 through 4  
17 and F6.

18 CHAIRPERSON KAHN: Second. Any discussion?

19 All in favor? Aye, and that passes two to nothing.

20 And now we are on F5, which has been  
21 recommended for deferral. Would we like to discuss that?

22 MR. JACOBS: Once again, our board had passed  
23 a narrowed list of future bylaw members that require  
24 approval of the Oversight Board based upon narrow reading of  
25 the items of state jurisdiction listed in SB 96.

1                   Based upon discussions with legislative and  
2   EOB staff, we are proposing the possibility, if you feel it  
3   would be an appropriate way to go, in expanding that list in  
4   a way that is set forth in Appendix D of the ISO memorandum  
5   materials.

6                   There were two ways to approach this  
7   provision: Either we could say all -- the PX approach is to  
8   say all amendments and then list the state jurisdictional  
9   items in SB 96 and subject to EOB approval.

10                  We thought we were looking for a bit more  
11   certainty in determining up front which fall in that  
12   category and which don't, as opposed to having questions  
13   later.

14                  CHAIRPERSON KAHN: Okay. Any discussion about  
15   this?

16                  MR. WILLISON: Move deferral of F5.

17                  CHAIRPERSON KAHN: Second. All in favor, aye?

18                  I don't mean to skirt your issue. I think we  
19   should hear from the PX, and we're going to rely on your  
20   staff -- discussions with staff on this. Thank you.

21                  Mr. Jacobs, thank you very much and thank you  
22   for all your efforts. I understand this was laborious at  
23   best.

24                  Let's turn to the Power Exchange. I'd say  
25   welcome back but --

1                   MR. RASMUSSEN: Scott Rasmussen, general  
2 counsel for California Power Exchange. Good morning.

3                   CHAIRPERSON KAHN: We have a listing of the  
4 Power Exchange's proposed amendments under number four, tab  
5 six, and there's a large number of those under A which are  
6 part of SB 96.

7                   And as I understand the staff has recommended  
8 approval of all of those; is that correct?

9                   MR. SALTMARSH: Mr. Chairman, I believe -- let  
10 me check. There may be one exception to that.

11                  MR. ROZSA: I'm kind of surprised that we  
12 don't have staff recommendations on the same page where they  
13 are listed in the bylaw things, that and I have to go  
14 searching for the staff recommendations.

15                  MR. SALTMARSH: I apologize. The larger  
16 document was originally grouped in the same way as the  
17 smaller document, which has a face sheet to it.

18                  Coming out of the workshop on the 13th we  
19 actually restructured that pursuant to a request that we do  
20 so and probably should have kept both versions.

21                  CHAIRPERSON KAHN: That was helpful.

22                  MR. SALTMARSH: A16 there is discussion,  
23 starts -- the listing of the item is page 9 in the larger  
24 appendix that follows, but it carries over, the substance is  
25 on page 10 of that document.

1                   CHAIRPERSON KAHN: Do you disagree with what  
2 is required?

3                   MR. SALTMARSH: We agree that SB 96 requires  
4 that the Oversight Board will not be the entity that sets  
5 staggering of terms for classes that are not subject to  
6 Oversight Board confirmation.

7                   This proposed bylaw amendment, A16, addresses  
8 both the Electricity Oversight Board retaining a certain  
9 authority with respect to certain classes, and the Cal PX  
10 governing board with respect to other classes.

11                  It's staff's understanding that based on some  
12 preliminary work that the Power Exchange did in anticipation  
13 of their elections to try to come up with a proposal for how  
14 these terms would be staggered that they came up with at  
15 least a recommendation across all classes.

16                  And it was staff's recommendation that the  
17 board discuss that with the Power Exchange in the context of  
18 this as to whether or not what they had previously done with  
19 the board's action today.

20                  CHAIRPERSON KAHN: I apologize for moving you  
21 along, but I do want to get to the meat of the meeting.

22                  Mr. Rasmussen, how much heartburn does this  
23 cause you if we defer A16?

24                  MR. RASMUSSEN: This does relate to the  
25 selection process and as our selection process is complete

1 as to the governor's subject to the governing board's  
2 confirmation, and it's pending -- we have completed it and  
3 thrown names to the Oversight Board for a confirmation  
4 process.

5                   So staggering of terms is a relatively higher  
6 priority item. This particular bylaw amendment merely  
7 allocates to the Oversight Board responsibility to stagger  
8 terms for its confirm means and allocates to the governing  
9 board authority to stagger terms for its confirm needs. It  
10 doesn't really get into how that staggering is going to be  
11 done only who does it, so I would encourage the board to go  
12 ahead.

13                   MR. ROZSA: Is this an amendment that's been  
14 approved by your board? Has it been reviewed by your board?

15                   MR. RASMUSSEN: Yes.

16                   MR. ROZSA: This particular amendment, A16?

17                   MR. RASMUSSEN: All of these amendments have  
18 been reviewed and adopted by --

19                   MR. ROZSA: This is something different than  
20 what I've seen before in the past.

21                   What happens is if you came to us with a  
22 staggering scheme?

23                   MR. RASMUSSEN: We have done that.

24                   MR. ROZSA: And asked approval for the  
25 assignment of terms that was derived from that staggering

1 scheme?

2 MR. RASMUSSEN: What we did in this instance  
3 was to, through the legal ADR committee at the Power  
4 Exchange, work on a methodology for the staggering of terms  
5 which we completed.

6 And as to our terms we conducted elections on  
7 that basis, in essence informing our candidates that this  
8 will be the process and these will be the result in terms  
9 and we've done that.

10 Now, for the Oversight Board the methodology  
11 was merely a proposal, and we forwarded it to you in terms  
12 of how your seats could be staggered, proportionality, and  
13 balance of terms.

14 MR. ROZSA: I would make the observation that  
15 I would like you to take back to your board that the  
16 staggering scheme that you used ended up creating a larger  
17 number of three-year terms for the board members that you  
18 nominate and confirm and a smaller number of three-year  
19 terms for the board members that the Oversight Board  
20 nominates and confirms.

21 And so by -- and the way that happens  
22 certainly wasn't intentionally. It was simply a by-product  
23 of the fact that you were distributing one-, two-, and  
24 three-year terms over the entire board rather than focusing  
25 on the board segment that you were responsible for



1 establishing the standard terms for. As a result you have  
2 created a biased set of terms within your nominated group.

3 Now, the Oversight Boards can't try and match  
4 that bias in the terms in which it creates for its nominees  
5 or it can suggest that we try and get a balance between both  
6 the PX board's confirmed nominees and the EOB confirmed  
7 nominees so that there's a match there between them, a match  
8 that's based upon a regular distribution of these terms.

9 And so what I would like you to do is take  
10 back to your board a suggestion that they relook at the  
11 allocation of terms among those board members and see  
12 whether they can't come up with something that actually  
13 distributes one-, two-, or three-year terms in more rational  
14 basis than they have them because the basis is the EOB will  
15 put together terms that match the terms your board has  
16 selected for its members.

17 CHAIRPERSON KAHN: Do you have any reaction to  
18 that?

19 MR. RASMUSSEN: I have been in discussions  
20 with Mr. Rozsa and others regarding the staggering of terms  
21 issues. I think it's appropriate to defer that issue so we  
22 can continue those discussions. I will certainly take this  
23 back to the board at our next meeting, which is May 18th.

24 CHAIRPERSON KAHN: So the --

25 MR. RASMUSSEN: -- for some further

1 discussion.

2 CHAIRPERSON KAHN: Is that to say that we  
3 should approve A1 through 15 and A17 through 25 and --

4 MR. RASMUSSEN: You most certainly should do  
5 that.

6 CHAIRPERSON KAHN: -- and wait on the other  
7 one?

8 MR. ROZSA: Wait a second.

9 MR. SALTMARSH: With the discussion that has  
10 occurred, we had this silent flagged for discussion, it  
11 would also be possible, Mr. Chairman, to approve the  
12 amendment A16 as written, which does, in fact, give the  
13 staggering authority for half of the board members to the  
14 EOB and half of it to the governing board.

15 I think the concern that Mr. Rozsa expressed  
16 articulately was not with the amendment itself but really  
17 with the proposal for how the terms in one half would be  
18 staggered and whether the equity would suggest a weird  
19 staggering on the other side.

20 CHAIRPERSON KAHN: I understand that.

21 Mr. Rozsa, what's your pleasure? Should we  
22 defer A16 or approve the whole thing as Mr. Saltmarsh has  
23 indicated? Sure.

24 We're going to pass A16. I entertain a motion  
25 to approve A -- I think we're okay on this -- A1 through 15

1 and A17 through 25?

2 MR. WILLISON: I would move --

3 MR. ROZSA: On A20.

4 CHAIRPERSON KAHN: Yes, sir.

5 MR. ROZSA: Can we take a look at the text on

6 A20? Is there a page number for A20?

7 (Pause in proceeding.)

8 CHAIRPERSON KAHN: Can you correlate A20 with

9 --

10 (Discussion off the record.)

11 MR. RASMUSSEN: I have page 18 on the

12 subsequent matrix. Article 9, 3A.

13 CHAIRPERSON KAHN: Yep, that's it. Thank you.

14 Page 18, Mr. Rozsa.

15 MR. ROZSA: And where in the actual bylaws --

16 CHAIRPERSON KAHN: That is --

17 MR. ROZSA: What page, 32?

18 (Pause in proceeding.)

19 MR. RASMUSSEN: Commences on page 32 and the

20 text is at the top of page 33.

21 (Discussion off the record.)

22 (Pause in proceeding.)

23 MR. ROZSA: So on sixteen all this does is

24 establish the differential responsibility?

25 MR. RASMUSSEN: That's correct.

1 MR. WILLISON: I would move approval of A1  
2 through 25.

3 CHAIRPERSON KAHN: Second. All in favor, aye?  
4 They passed two to nothing, so you got there, Mr. Rasmussen,  
5 anyway.

6 As to the second things listed under B, my  
7 inventory says B2, B12, B3, and B27 are the ones that you've  
8 decided you want to defer; do I have that right?

9 MR. SALTMARSH: Can you state that again?

10 CHAIRPERSON KAHN: Yeah. B2 --

11 MR. SALTMARSH: Correct.

12 CHAIRPERSON KAHN: -- B12 -- I feel like I'm  
13 reading Bingo numbers -- B12 -- anyone who has Bingo can  
14 become chairperson immediately -- B13 and B27.

15 UNIDENTIFIED SPEAKER: Bingo.

16 MR. SALTMARSH: I would also note that items  
17 B21, 22, 23, 24, and 29 are listed here and we provided  
18 discussion of them in the analysis document. They in our  
19 interpretation, together with the Cal PX staff, do not  
20 actually require Electricity Oversight Board approval, so we  
21 recommend no action on those.

22 CHAIRPERSON KAHN: Right. Well, okay. I got  
23 it.

24 MR. WILLISON: Which ones are those, Erik?

25 CHAIRPERSON KAHN: 21, 22, 23, 24, and 29.

1                   MR. ROZSA: Some of the summary on this stuff  
2 is not to follow. There's an enormous amount of work, but  
3 there are mystery ones that are not recommended for  
4 recommendation. It's very difficult to follow and do the  
5 work here.

6                   What are those numbers again, please?

7                   MR. SALTMARSH: The amendments that we believe  
8 do not require confirmation by the Oversight Board for which  
9 we recommend no action are B21 through 24 and B29.

10                  SENATOR BOWEN: That's actually reflected,  
11 John, if you have the summary page --

12                  MR. ROZSA: Now I see that part of it here.  
13 Not required, right. But for --

14                  SENATOR BOWEN: That's the one part I've been  
15 able to follow.

16                  MR. ROZSA: But for example, the ones that  
17 Michael listed off earlier where -- and we've made mistakes  
18 before -- and I don't want to make mistakes again.

19                  MR. RASMUSSEN: Mr. Chair, can I add to that?

20                  In the column TBD indicates "To Be  
21 Determined," and virtually all those TBDs are deferred, with  
22 one exception, if I'm correct, only B20.

23                  And the staff recommendation on B20 is  
24 recommend approval of that item, but all the other TBDs are  
25 for deferral under the staff recommendations.

1                   MR. ROZSA: Is there a list of to be deferred  
2 that everybody has? No? No, I'm not talking about -- all  
3 right. This the to be determined; okay?

4                   But Michael, read off a list of items which  
5 were proposed to be deferred.

6                   CHAIRPERSON KAHN: I must confess I compiled  
7 it myself.

8                   MR. WILLISON: That was 2, 12, 13, 27.

9                   CHAIRPERSON KAHN: I will say I read every one  
10 of the analysis and I cross-checked them.

11                  MR. ROZSA: And you made your own list?

12                  CHAIRPERSON KAHN: I did. So -- and for my  
13 own self I was satisfied with these staff recommendations as  
14 to all of them.

15                  MR. WILLISON: Same here. I'll move approval  
16 of the staff recommendations under the B category.

17                  CHAIRPERSON KAHN: Second. All in favor, aye?  
18 And the staff recommendations are adopted.

19                  And the staff recommendations for the C  
20 category, which is the last, for those of you without a  
21 scorecard, were C1, 3, and 4 were recommended for deferral  
22 and 2 was TBD as you pointed out.

23                  SENATOR BOWEN: Is it appropriate to have a  
24 brief discussion?

25                  CHAIRPERSON KAHN: Absolutely, about any of

1 them.

2                   SENATOR BOWEN: About Cal PX C3, the summary  
3 page just says rules -- "the requirement that certain  
4 information be included in the annual report," and I think  
5 that one of the -- that information question, as I  
6 understand it, governs reporting of transactions in which  
7 the PX or governor or officer thereof has a direct matrix.

8                   And I'm wondering why we would want to -- if I  
9 missed the point of the amendment or if I didn't miss it,  
10 why would we want to eliminate worrying about potential  
11 economic interests?

12                   CHAIRPERSON KAHN: That's a very good point.

13                   MR. RASMUSSEN: Excellent point. The  
14 requirement that the report of such transactions be made is  
15 not deleted in the sense that it's a function of law under  
16 the corporation's code we must make those reports, whether  
17 we delete it from the bylaws or not.

18                   The significance of the amendment was to  
19 decomplicate the annual report. One method of making these  
20 required disclosures is through your annual report, but it's  
21 not the exclusive way under the corporation's code.

22                   So we took -- although we took the language  
23 out of the bylaws requiring the annual report to make these  
24 disclosures, we are still required to make these  
25 disclosures, so that was the intent in the spirit in which

1 the amendment --

2 CHAIRPERSON KAHN: I can tell you that when  
3 this does come before us that's going be a very tough one to  
4 sustain, not that your mechanical procedure might be correct  
5 but to the extent that we find ourselves agreeing to less  
6 disclosure of conflicts of interest and public reports, it's  
7 probably something we won't be happily passing.

8 MR. RASMUSSEN: Great. Appreciate the  
9 comments.

10 CHAIRPERSON KAHN: Thank you, Senator.  
11 Any other comments about these?

12 MR. WILLISON: I move the staff's  
13 recommendations on C1 through 4.

14 CHAIRPERSON KAHN: Second. All in favor, aye?  
15 While we're almost done with these. We still  
16 have the deferrals. Once again to ISO and PX, this is a lot  
17 of work, thank you very much. And as the Senator points  
18 out, hopefully we'll never have to do this again.

19 That moves us to number five on the agenda --  
20 excuse me. We have a nomination to the ISO board.

21 EXECUTIVE DIRECTOR HEATH: Thank you, Mr.  
22 Chairman. A letter that is in your packet under item 4D is  
23 a recommendation from then President Richard Viless  
24 (phonetic) at the Public Utilities Commission representing  
25 Mr. Long as an advisory representative to the ISO governing



1 board.

2 CHAIRPERSON KAHN: We have his resume  
3 attached?

4 EXECUTIVE DIRECTOR HEATH: I believe it's  
5 attached. And also since this letter was published or  
6 released on February 22nd, there's been a change in the  
7 president at the PUC. I consulted with President Lynch, and  
8 she also is recommending that Mr. Long be appointed to the  
9 board.

10 And therefore, we have looked for a motion  
11 from the board.

12 CHAIRPERSON KAHN: I take it the ISO concurs  
13 with this?

14 MR. WILLISON: Move approval of Mr. Long's  
15 appointment.

16 CHAIRPERSON KAHN: Second. All in favor, aye?

17 EXECUTIVE DIRECTOR HEATH: Thank you.

18 CHAIRPERSON KAHN: Thank you, Mr. Long.

19 Five, item number five, I would like to take  
20 this in the following order: I would like to do 5A first  
21 and then 5C and then 5B; that is to say the readiness report  
22 first and then the attack and then the RPO.

23 EXECUTIVE DIRECTOR HEATH: Mr. Chairman, I  
24 believe that our court reporter will need to take a quick  
25 break to change tapes.

1                   CHAIRPERSON KAHN:  Let's take a five-minute  
2 break.

3                                   (A brief recess was taken.)

4                   CHAIRPERSON KAHN:  Mr. Heath?

5                   EXECUTIVE DIRECTOR HEATH:  Thank you, Mr.  
6 Chairman, members.  The next item on the agenda today --

7                   CHAIRPERSON KAHN:  Turn on your mike.

8                   EXECUTIVE DIRECTOR HEATH:  The next item on  
9 the agenda, item number five, the summary 2000 readiness  
10 report.  I believe Mr. Winter and Mr. Sladoje are here  
11 representing the ISO on this matter.

12                   As they come forward, just to let the members  
13 know what's been ongoing:  Weekly meeting with the Energy  
14 Commission, Public Utilities Commission, and the EOB to  
15 discuss a public awareness program, possibly one that was  
16 recommending to the administration.  Those discussions are  
17 ongoing at this point.

18                   Before anything is submitted to the  
19 administration on this matter we will bring back to the  
20 board for your consideration of that public awareness  
21 program.

22                   CHAIRPERSON KAHN:  Excuse me, Mr. Heath,  
23 repeat the last thing you said you were going to bring  
24 something back to the board.

25                   EXECUTIVE DIRECTOR HEATH:  There's a

1 tri-agency program being developed for public awareness for  
2 the summer 2000. It is to be submitted to the  
3 administration. Before that occurs I would like to have it  
4 brought to the board for any comments on that.

5 CHAIRPERSON KAHN: So that means next month?

6 EXECUTIVE DIRECTOR HEATH: That's correct.

7 CHAIRPERSON KAHN: That means we have to have  
8 a meeting next month because summer has already started.

9 EXECUTIVE DIRECTOR HEATH: If we could take  
10 comment from the members on that.

11 CHAIRPERSON KAHN: The only thing that's not  
12 okay with me is we let our procedures interfere with moving  
13 this forward, so if that means we have to have a special  
14 meeting or telephone calls in between, whatever.

15 EXECUTIVE DIRECTOR HEATH: Maybe judge that  
16 from the reaction from the individual members, then we can  
17 decide at that point if we need to call a meeting with the  
18 board to have public discussion on that, if that's okay with  
19 you.

20 CHAIRPERSON KAHN: Yes. Okay, gentlemen,  
21 welcome.

22 MR. WINTER: Thank you for having us here. My  
23 name is Terry Winter with the California ISO.

24 On the summer readiness what I'd like to do is  
25 I've passed out a lot of papers. I think I can condense

1 this very quickly into what the problem is and what we're  
2 doing about it.

3 First thing is as planners we look at two  
4 things: One what we call the normal summer load and one  
5 that we call the hot summer, and what I would like to deal  
6 with are those two numbers.

7 During a normal summer we would expect to have  
8 a peak load of forty-six thousand two hundred and fifty  
9 megawatts. If we have a normal summer and we can get the  
10 imports that we would expect in the field that we have  
11 sufficient from outside the state, we will have available  
12 resources, counting the internal generation and the imports,  
13 of forty-six thousand three hundred and fifty megawatts.

14 And since that number is larger than the  
15 normal summer load, we feel comfortable that we will be able  
16 to meet a normal summer load.

17 When I give you the forty-six two fifty load  
18 that does not count the reserves that are top of it, but in  
19 all the numbers I have taken out the necessary reserves to  
20 meet the standard WFCC criteria, and therefore we are  
21 covered for the loss of lines, loss of generation that might  
22 occur on an instantaneous basis.

23 So normal summer looks like we're covered. We  
24 have some additional interruptible load that we can bring to  
25 bear, and therefore, we would see no problem. However --

1                   CHAIRPERSON KAHN: The forty-six doesn't  
2 include curtailment?

3                   MR. WINTER: No, it does not. Now, let's look  
4 at the hot summer.

5                   During a hot summer we would expect the peak  
6 load to be forty-eight thousand nine hundred and forty  
7 megawatts. And I give you these numbers like I know exactly  
8 what they are. That's not quite the case, but we'll carry  
9 them out to four decimal places, and then we're back.

10                  We would project on a normal hot summer day  
11 that we would have the capability of serving generation with  
12 reserves generation of forty-five thousand fifty megawatts.  
13 Immediately see that and there's about two thousand plus,  
14 actually a little over three thousand megawatts of load that  
15 we cannot serve.

16                  CHAIRPERSON KAHN: Why do you lose a thousand  
17 in the hot --

18                  MR. WINTER: Because as the weather warms up  
19 throughout the western United States the import capability  
20 drops from the other states.

21                  Then we -- the first line of defense is we  
22 look at the interruptible load programs that are currently  
23 in place. And in those programs we have two thousand seven  
24 hundred and eighty megawatts. That brings us to a  
25 forty-seven eight thirty megawatts that we could serve, and

1 you can see we're still about a thousand megawatts short.

2                   So then we've got say "Okay, how are we going  
3 to handle that thousand megawatts?" And towards that end we  
4 have started some programs to try and figure out how we can  
5 get an additional thousand megawatts into the system.

6                   And I will go through those programs that  
7 we're now proposing; however, before I get there, clearly  
8 understand that in a system this size there may be  
9 individual pockets that a transformer overloading or such  
10 may cause a problem, so even though we may have a normal  
11 summer, there's always the case of a particular transformer  
12 going out in a very sensitive area on the hottest day with  
13 the peak loads on it.

14                   And so occasionally we will have to use our  
15 interruptible load, even though in the total system we may  
16 not get there. So I always want to put that clarifier and  
17 let you know I'm speaking on a statewide system not on each  
18 individual part throughout the areas.

19                   We have studied what we call the hot spots,  
20 and we have plans and contingencies to take care of them,  
21 but again, you are never sure what fire is going to get  
22 under which line, where, and what particular piece of  
23 equipment may fail.

24                   So the programs that we are involved in is  
25 first we start looking at the load participation products

1 and plans. And we have what we call an ancillary service  
2 market wherein generators bid to provide operating reserves.

3 And our first line of approach was to let load  
4 look exactly like a generator, and in that case whether I  
5 add a thousand megawatts a load or -- I'm sorry -- a  
6 thousand megawatts of generation or I take off a thousand  
7 megawatts a load, the results are the same. I can still  
8 serve the necessary requirement.

9 And we went out for a RFP to see what interest  
10 there would be in serving our plate in the ancillary service  
11 market. Now, that forced us, the ISO, to loosen our  
12 standards a little bit on response times, but since load  
13 isn't responsive the same way generation is, we thought we  
14 could take five hundred megawatts in that less-than-perfect  
15 knowledge of what the load was doing and still meet the  
16 requirements of WFCC.

17 In that bid we got back four hundred and sixty  
18 megawatts, so we feel that's pretty responsive by the  
19 market, and their price that they would get paid would be  
20 only that the market clearing price was at the time they  
21 were called on, so that program seemed to move forward quite  
22 well. And again, we're trying to get a thousand megawatts,  
23 we have four sixty there.

24 The next place that we went is we went to a  
25 program that after we get in the emergency situation, how

1 can we go to people and say "We're in emergency now and we  
2 want you to start curtailing."

3                   The existing program curtailed for  
4 twenty-seven thousand. We felt that if we could get more  
5 people to enter a new program and put that in play that that  
6 would be a way to add additional emergency response.

7                   There the response was a little disappointing.  
8 We only got a hundred and eighty megawatts that bid into  
9 that, and so we are -- we have suspended the RFP for that  
10 and are looking at the different costs that we would be  
11 willing to pay to encourage it.

12                   Now, having said that, there was a very  
13 interesting result that I think plays into the next point,  
14 which is our public awareness program.

15                   And that is we had several chain stores come  
16 to us, and I will not give their names until we get farther  
17 down the road, but they said that they would be willing to  
18 drop off. They did not want to enter into a contractual  
19 basis, but if we were willing to, as we go on TV and talk  
20 about this, mention their names as people who willingly  
21 dropped off and we'd authorize them to put big signs on  
22 their doors saying "Due to the shortage of energy in  
23 California we've closed our store for the afternoon," they  
24 would be willing to drop load in an emergency.

25                   And I found that very, very encouraging



1 because that's exactly what we want this program to do. The  
2 concern you have is will they be there when you actually  
3 call? And that will rely on how often we have to do it and  
4 what kind of participation we could get them to see as we  
5 herald them in the public process, so that was our first or  
6 low participation projects.

7                   Then we went to the generation side, and we  
8 put an RFP out for generation in a couple of the areas that  
9 we found are problematic for this summer. We have not  
10 gotten the bids back on that yet. They should be coming in  
11 next week, but we've gotten a lot of interest, a lot of  
12 phone calls of different things that people could do, all  
13 the way from pulling units in on barges and all the other  
14 different ways that you could immediately make a turbine  
15 available to meet it. So I think everyone has responded  
16 very well. We'll just have to see how it rolls out over the  
17 next month.

18                   We've also started a public awareness  
19 campaign, and we think that it's very crucial that the  
20 investor-owned utilities and municipalities, as well as the  
21 ISO participate in this campaign to -- we've even gone so  
22 far as to say we think we -- as we get into the hot summer  
23 months, right along with the weather forecast we ought to  
24 have a power forecast so they can see what the impact of  
25 conservation would have.

1                   People tend to look to their investor-owned  
2 utility or their distribution server for advice, so we've  
3 kind of targeted that area going forward. Beyond that --

4                   CHAIRPERSON KAHN: Excuse me. There's a  
5 question.

6                   SENATOR BOWEN: On the awareness campaign,  
7 when we discuss this issue in the Senate committee, one of  
8 the things that came up a number of times was that rather  
9 than establishing some new criteria we build on the existing  
10 public awareness of the spare-the-air days and the air  
11 quality, particularly since days in which we have a power  
12 problem are also very likely to be days on which we have an  
13 air problem.

14                  Have you done any work with the state air  
15 board to try to coordinate so that -- we don't want to  
16 confuse people about the air issues, and I think it's really  
17 important that we --

18                  MR. WINTER: Yes. I had a group of people  
19 from the California Air Resources Board out to the ISO. We  
20 spent about three to four hours discussing what the  
21 different issues during the summer and air quality. And our  
22 RFPs that go out for generation specifies right in there  
23 "Don't even come talk us to unless you have resolved with  
24 ARB or CARB the issue of pollutants during the time of  
25 high/low.

1                   SENATOR BOWEN: I'm not talking about the  
2 issue of adding pollutants, but since there is a fairly  
3 well-known, at this point, system of air quality alerts that  
4 come out, red days and so on, I think the public is  
5 accustomed to that.

6                   And the question is: How can we on the power  
7 side -- how can we build on that existing awareness? And in  
8 particular not confuse people with what exactly is this new  
9 thing.

10                  MR. WILLISON: Stay home. Use your air  
11 conditioner.

12                  SENATOR BOWEN: Exactly. How do we coordinate  
13 those two messages? Because if the message is "Stay home  
14 and turn on your air conditioner and sit at home," I'm not  
15 sure we do good on that side, so maybe the air board needs  
16 to do some work.

17                  MR. WINTER: We're trying to build on all  
18 those programs. That's how we got to the weather watch. I  
19 think we're headed down that road. We're still exploring.  
20 It's an area we're working very closely with municipality  
21 who have different programs, air-conditioning, shedding, all  
22 kinds of different ways of reducing the consumption.

23                  So that's a great idea. I'll find out. I  
24 haven't been close enough to say whether they went down that  
25 road or not.

1                   SENATOR BOWEN: I do not want to design your  
2 program for you. However, my district office staff will be  
3 who is answering phone calls from people who are confused  
4 about what exactly they are being asked to do on a hot  
5 summer afternoon.

6                   So to the extent we can, I want to anticipate  
7 what kind of calls that we all up here might get from people  
8 who don't understand what a person is supposed to do.

9                   CHAIRPERSON KAHN: Anything else, Terry, this  
10 morning?

11                  MR. WINTER: Really quickly, we're doing all  
12 the contingency planning that's necessary for this kind of  
13 situation. We do that every year. We've heightened the  
14 number of tests and programs that we run through so if we  
15 ever do get in the situation where we're having to enact  
16 this, we will go too far and do what's appropriate for the  
17 level of heat that we're dealing with.

18                  CHAIRPERSON KAHN: Yes, sir. You have  
19 something you want to share with us?

20                  MR. SLADOJE: Yes. We reflect the supply and  
21 demand through price. Maybe our opportunities aren't as  
22 extensive as the ISO's.

23                  Just to touch on a couple of things that we're  
24 doing in the demand responsiveness areas, first of all  
25 participants nationally have a chance to see the

1 relationship between pricing and quantity, which encourages  
2 the demand responsiveness.

3                   We've been assisting Edison in the state of  
4 California, Department of General Services to develop the  
5 contract approach to provide state facilities more  
6 opportunity to provide a demand reduction.

7                   We have met with energy service providers,  
8 CMA, food processors and so on, and we've talked with them  
9 about how to utilize day ahead, day of, realtime markets,  
10 demand responsiveness, as well as using adjustment bids, and  
11 together with PG&E we organized and hosted a workshop in San  
12 Francisco March 24th to help participants in this area.

13                   Finally, of course, I believe from our  
14 standpoint the ultimate in demand responsiveness could be  
15 achieved through widespread dissemination of price  
16 information.

17                   And as an example of what could be done, I've  
18 passed out to you just two days' worth of information that  
19 we would propose that consumers could see some day,  
20 wholesale electrical power prices, should be wholesale  
21 energy prices, but I took today, April 21st, 2000. This was  
22 an auction that was held yesterday morning prior to 7:00  
23 a.m.

24                   And if the consumer was aware of what the  
25 price per kilowatt hour was, as you can see going down the

1 right side, really not a lot of divergence from the low and  
2 high today, probably going from nine-tenths of a cent to a  
3 little over three cents, probably, per kilowatt hour,  
4 probably not a big deal.

5                   But if you turn to the second page, August  
6 27th, when we reach our highest price, you can see an  
7 enormous price differential. Perhaps if the consumer knew  
8 that the kilowatt hour price was twenty-two and a half cents  
9 at 3:00 o'clock in the afternoon versus, you know, less than  
10 four cents in the morning, there would be some reaction.

11                   At present there's three major difficulties,  
12 at least. First of all, most consumers are under a rate  
13 freeze, and they don't see this. Second, we don't have  
14 meters which differentiate between time of day, in most  
15 cases, and the third problem is we found the newspapers very  
16 reluctant to publish this information without us paying for  
17 it.

18                   So what we plan to do within the next couple  
19 of months prior to getting to the summer season is to  
20 approach the major newspapers and marketplaces in California  
21 to see if we can get them to run this information, even  
22 though consumers won't necessarily react to act, but at  
23 least educate them towards this.

24                   Second, we will release monthly a summary of  
25 prices in California, just release them publicly through

1 press releases and through send-outs to get people used to  
2 looking at this, then when we get into June and July we'll  
3 be sending this information out to the public on a weekly  
4 basis as an educational effort.

5 CHAIRPERSON KAHN: Thank you very much, very  
6 helpful.

7 SENATOR BOWEN: One of the things that -- one  
8 of the opportunities I think we have to disseminate this  
9 information is the electric bill that people get every  
10 month.

11 There's no reason that that kind of  
12 information, whether it be on a monthly basis or highlights  
13 a particular week or time frame, some kind of bar graph or  
14 chart or something that could be printed voluntarily by the  
15 IOUs on the monthly bills at the beginning of an awareness  
16 campaign; doesn't cost much of anything extra because that  
17 billing is going out anyway. It's going out monthly. It  
18 gets used already to do public information campaigns about  
19 various issues.

20 And I just wonder if anyone has had any  
21 discussions with the IOUs about using an existing mechanism  
22 that already comes into people's houses once a month to do  
23 some of this.

24 MR. SLADOJE: That is a good idea. I think  
25 the Oversight Board staff has been working with the IOUs to

1 see if we can do something before the summer season hits.

2 Thank you.

3 CHAIRPERSON KAHN: Mr. Heath, what else do you  
4 want to accomplish on this subject?

5 EXECUTIVE DIRECTOR HEATH: I think that covers  
6 it on this one.

7 CHAIRPERSON KAHN: Senator has one more  
8 question.

9 SENATOR BOWEN: On your program that you got a  
10 hundred and eighty megawatts bid for, what's the status of  
11 that?

12 And first, why do you think that happened and  
13 what's the ISO's plan for what to do with that? And third  
14 question, what implication does that have for your ability  
15 to meet peak load if you have a hot summer?

16 MR. WINTER: Clearly if we have a hot summer  
17 the implication is we are getting very close to the margins.  
18 I can't say we're going to run over them, but it's extremely  
19 close.

20 Why did we get that amount, we're not sure.  
21 That's why we suspended that RFP and we're going back and  
22 having phone call discussions with each of the people and  
23 looking at it, so anything I gave you now would probably be  
24 a little premature, but we will certainly keep you advised.

25 SENATOR BOWEN: So it's not dead yet?



1                   MR. WINTER: Not dead yet.

2                   CHAIRPERSON KAHN: Mr. Heath, where are we  
3 going with this?

4                   EXECUTIVE DIRECTOR HEATH: Reporting back at  
5 the next meeting with progress we're making on the public  
6 awareness program.

7                   CHAIRPERSON KAHN: And we will hear from you  
8 in between?

9                   EXECUTIVE DIRECTOR HEATH: You will. I will  
10 have term materials for the next meeting.

11                  CHAIRPERSON KAHN: We want to talk about  
12 transmission access, and the question is: How do you  
13 propose we proceed?

14                  EXECUTIVE DIRECTOR HEATH: Mr. Chairman, my  
15 recommendation is we have Mr. Winter and his staff remain up  
16 front here, give their presentation briefly, of course, on  
17 the TAC filing Amendment 27.

18                  After that I would recommend that bring up the  
19 panel of the utilities identified in your package, and then  
20 hear from California Department of Water Resources and at  
21 that point decide whether there's other discussions we need.

22                  CHAIRPERSON KAHN: Mr. Winter, I can tell you  
23 that we have read this stuff that you sent us and we're  
24 familiar with this and we are -- we will probably have more  
25 questions for you after we hear from the munis than before,

1 so why don't you proceed on that basis.

2 MR. WINTER: The individual who we had planned  
3 to give this presentation ended up rather sick this morning,  
4 so what I've done is I've asked our vice president of client  
5 services, Zora Lazic, who is involved in a lot of the  
6 meetings to fill in in that case. And with those  
7 instructions, I guess I would pass on that instruction.

8 Zora, keep it quick.

9 MS. LAZIC: Thank you.

10 CHAIRPERSON KAHN: Welcome.

11 MS. LAZIC: I've given you a handout that has  
12 some slides on it, and I'll just race through those at a  
13 twenty-thousand-foot level. You can stop me if you have  
14 questions, if that works for you.

15 First question is why are we doing this?  
16 There's two main reason: One is AB 1890 requires us to file  
17 a rate methodology for the access charge no later than two  
18 years from our startup date. The FERC requirements meant  
19 that we had to file sixty days before we did get an  
20 extension from FERC. That methodology has been filed with  
21 FERC, and it was filed on the 31st.

22 The second big reason is, really, this  
23 fulfills the vision that AB 1890 contemplated for California  
24 having one system, everybody together, one ball transmission  
25 rate, one rule for California, and we expect to see better

1 transmission pricing signals, better facilitation of  
2 interstate commerce, increase in phantom congestion,  
3 increased efficiency of the ISO grid, and reliability  
4 benefits.

5                   We've had a significant public protest which  
6 started in December of '98, went heavily through '99 with  
7 stakeholders participating at a significant level providing  
8 us with a lot of information, a working group which provided  
9 a lot of information on the costing details; went to the  
10 governing board on a number of occasions, and in April of  
11 '99 the governing board appointed a negotiating group made  
12 up of two IOUs, two end-user reps, and two governmental  
13 entities.

14                   That group met mercilessly every week through  
15 November 16th to December 29th. The ISO governing board  
16 then met a number of times in executive session to deal with  
17 some of the negotiation issues and moved into a public  
18 session where they continued discussions and negotiations  
19 and had executive and public sessions through January,  
20 February.

21                   The access charge principles are on page 3 of  
22 the handout I've given you. The first is ultimately having  
23 an ISO grid-wide high voltage access charge so there would  
24 only be one charge for the entire ISO grid for the high  
25 voltage wires.

1                   The low voltage would remain utility-specific.  
2   The new participating transmission owners would turn their  
3   transmission rights over to the ISO control and comply with  
4   all ISO tariff protocols and agreements. The access charge  
5   is based on gross loads and exports except specific loads to  
6   a qualifying facilities. For participating transmission  
7   owners the GMC is paid on gross loads and exports.

8                   We contemplated a ten-year transition. The  
9   maximum impact to the original participating transmission  
10  owners is thirty-two million for PG&E per year, thirty-two  
11  million for Southern California Edison, and eight million  
12  for San Diego.

13                  CHAIRPERSON KAHN: How do we come up with  
14  those numbers?

15                  MS. LAZIC: Those numbers were suggested to us  
16  by the end-users representative who considered that to be  
17  maximum impact that their customers were willing to  
18  accommodate in return for the benefits which they thought  
19  were significant and would improve to their customers.

20                  CHAIRPERSON KAHN: Who were they?

21                  MS. LAZIC: Barbara Barcovich, Mike Florio.

22                  CHAIRPERSON KAHN: Representing whom?

23                  MS. LAZIC: Representing the industrial  
24  customers and the manufacturers association.

25                  UNIDENTIFIED SPEAKER: Mike is residential.

1 MS. LAZIC: Thank you. Residential.

2 MR. WILLISON: So was there economic analysis  
3 behind the numbers or were they politically --

4 MS. LAZIC: I wasn't involved in those  
5 discussions. I understand they had discussions with their  
6 customers, with their representatives, talked to them on how  
7 much are they willing to accommodate in exchange for  
8 benefits they saw and which they thought were substantial.

9 MR. WILLISON: So basically we don't know how  
10 they got the numbers?

11 MS. LAZIC: No.

12 CHAIRPERSON KAHN: Okay.

13 MS. LAZIC: New regional additions would go  
14 straight into the ISO grid-wide rate. The benefits would be  
15 used to reduce the transmission revenue requirement. There  
16 would be no grid management charge or access charge cost  
17 increase to the new participating transmission owners during  
18 that ten-year transition period and the first step is having  
19 TAC areas.

20 TAC areas are outlined on the map that's on  
21 page 4. This would be triggered as soon as one entity  
22 signed the participating transmission owner agreement. Once  
23 that is signed and filed with FERC and approved, this would  
24 be triggered.

25 So we have the northern TAC area which is

1 generally the PG&E service territory and as well as some  
2 other usable areas in that geographic location. Second is  
3 east central, which is former or Southern California Edison  
4 service territory and some of the governmental entities who  
5 serve customers there. Third is west central, which is LAWP  
6 and a few others. Last is southern TAC, which is San Diego  
7 and had some others.

8                   SENATOR BOWEN: Why are there areas that  
9 aren't in any TAC?

10                   MR. WINTER: The reason those areas exist is  
11 on Northern California it's extremely sparsely populated,  
12 not much load. It was served by Pacific Core, but I  
13 remember they just sold it to some new entity up there. I  
14 don't remember who it was. They were never included in the  
15 original AB 1890 process. The other one is IID down in the  
16 lower right-hand corner, which is Imperial Irrigation  
17 District, need I say more.

18                   CHAIRPERSON KAHN: Okay.

19                   MS. LAZIC: The mitigation balancing that we  
20 looked at was maximum impact to the original PTOs that I  
21 mentioned during that ten-year transition period of  
22 thirty-two, thirty-two, and eight million annually.

23                   All gross loads and exports would pay the  
24 access charge except for those which we mentioned as well as  
25 the qualifying facilities that's to preserve what they

1 already have and what they are entitled to.

2                   There would be no cost increase due to the  
3 high voltage access charge or GMC to the new entities that  
4 would join, and that's only during that ten-year transition  
5 period, but they are held harmless for ten years, and the  
6 benefits would be used to reduce the high voltage  
7 transmission revenue requirement.

8                   CHAIRPERSON KAHN: Are you -- before you go  
9 beyond hold harmless, what do you mean by that?

10                  MS. LAZIC: The existing governmental entities  
11 currently don't pay some of these charges, and so they will  
12 be held harmless from enjoining from seeing an impact as a  
13 result of these charges so that their cost to their  
14 customers don't go up as a result of joining, so for a  
15 ten-year transition period, technically, they actually pay  
16 them then they are reimbursed.

17                  CHAIRPERSON KAHN: So you are guaranteeing  
18 that?

19                  MS. LAZIC: Yes.

20                  MR. WILLISON: And that was one of the  
21 principles that they demanded?

22                  MS. LAZIC: Yes.

23                  MR. WINTER: And the reason we can guarantee  
24 that is the investor-owned utility will have had to pay that  
25 higher rate for them not coming in, so now that we spread

1 our costs to a much larger base brings that down, and all  
2 they are saying is they will accept that cost and send it  
3 back to the new transmission owners that join, so they are  
4 kind of protected.

5 If they stay with what they got they'd have to  
6 pay this much, otherwise it's down, and they never get  
7 exposed to more than they would be paying now.

8 MR. WILLISON: We're holding one group  
9 harmless, and the other group is capped.

10 Is there risk, then, that somebody is going to  
11 have to bear the cost if the assumptions are wrong?

12 MR. WINTER: In markets I found there's risk  
13 in just about everything we do anymore, but I'm trying to  
14 think how the risk would be transferred. I don't think so  
15 because any risk that's born by an increase.

16 Let's say for some unknown reason the grid  
17 management charge would have to increase. The  
18 investor-owned utility would have to pay that anyway, so  
19 yes, they are at risk, but they would have to pay it whether  
20 the municipals joined or not.

21 MR. WILLISON: So that part of it is capped,  
22 the thirty-two, thirty-two and eight?

23 MR. WINTER: No, it's not.

24 CHAIRPERSON KAHN: Okay. Keep going.

25 SENATOR BOWEN: I was fine until we got to the



1 statement that the new participating IOU benefits to reduce  
2 the high voltage transmission revenue requirement. I don't  
3 have any idea what the high voltage revenue requirement is  
4 or how this works.

5 MS. LAZIC: The access charge is based on the  
6 transmission revenue requirement of all the participating  
7 transmission owners, so we take all of those, roll it in,  
8 allocate it back, that's how we come up with the  
9 transmission access charge.

10 When some of the governmental entities joined,  
11 it results in -- this is part of the shift that happens when  
12 they join because of the vintaging issue and with some of  
13 those having higher costs transmission assets, so the shift  
14 that occurs is used by governmental entities and applied to  
15 their transmission revenue requirement to reduce that.

16 So when we look at the entire transmission  
17 revenue requirements of the ISO grid-wide, we see it going  
18 down in some proportion to the benefits that are being moved  
19 from the IOU -- existing IOUs over to the entities that are  
20 joined.

21 Does that not make any sense?

22 SENATOR BOWEN: I think I understand the  
23 concept. It's just the terminology that is difficult. I  
24 hope that I understand the concept. I'll tell you soon if I  
25 didn't.

1                   CHAIRPERSON KAHN:   Okay.   Keep going.

2                   MS. LAZIC:   Direct benefits for California in  
3   the increased transmission capacity that will result, the  
4   payment of transmission revenue requirement through a  
5   blended rate, increase participation in the ISO, eventually  
6   a decrease in GMC to the original PTOs after that ten-year  
7   transition period, and the reduction of that congestion due  
8   to the pipeline model.

9                   The increase to rate payers has been  
10   calculated.   That's also on page 6 for you.   It amounts to,  
11   for residential rate payers, this is for the existing IOU  
12   rate payers, an increase of three point five percent for  
13   residential or twenty-four cents on their bill.   For  
14   commercial users, one-hundred-thousand-kilowatt-hour use it  
15   would be three point three percent or forty dollars for the  
16   industrials, two point seven percent or six hundred dollars.

17                  CHAIRPERSON KAHN:   Okay.

18                  MR. WILLISON:   Can I ask, are those changes  
19   before or after the savings from congestion?

20                  MS. LAZIC:   Those are not including the  
21   savings and congestion.   Those are just straight  
22   transmission revenue requirements which way it shifts.   From  
23   the reason I think the end users have saw benefits and  
24   agreed to this is because of those types of things:  
25   Congestion, the efficiencies, and we expect a lot of other

1 benefits as well.

2 CHAIRPERSON KAHN: Just I think we'll come  
3 back to these increases, but I think we would like to hear  
4 from the munis first. That was really a very difficult  
5 subject that you captured very clearly. Thank you very  
6 much.

7 MS. VEAL-HUNTER: In a nutshell I'm sure we'll  
8 hear from the munis why this proposal wasn't so agreeable to  
9 them.

10 What, from your perspective, is the dissention  
11 between the municipal groups, IOU, and tax --

12 MR. WINTER: Why don't I try that one. For  
13 the court reporter my understanding of the question is what  
14 is the dispute between the investor-owned utility and the  
15 municipalities, why one feels it's a good deal and the other  
16 one doesn't.

17 I don't know that I would characterize them as  
18 either side feeling it's a good deal, so I think the debate  
19 comes into how much money you transfer because this is not  
20 an issue of somebody being bad or somebody doing a line more  
21 expensive than someone else. It really deals with the issue  
22 of vintaging or when was the line built.

23 And over time the investor-owned utilities  
24 were built much earlier so their lines are less costs. The  
25 municipals have built more recently, and therefore they have

1 additional costs.

2                   So now you have a situation where the whole  
3 rate of an investor-owned utility is based on low-cost  
4 transmission and the rates of the municipality are based on  
5 whatever theirs are, so if I'm an investor-owned utility I  
6 would say "Well, I'm reaping the benefits of an municipals  
7 made twenty years ago. Why should I give that up to the  
8 municipality who made theirs more recently?"

9                   The municipality, I'll let them speak for  
10 themselves because they definitely will, but the bottom line  
11 is they are not as willing to accept some of the future  
12 benefits that may accrue out of joining as the  
13 investor-owned utilities who didn't have a choice  
14 experience, so I think it's that idea of having to give  
15 money up for something you did to somebody else who built  
16 more recently.

17                   MS. VEAL-HUNTER: I heard you mention, Ms.  
18 Zora, the revenue requirements.

19                   Are revenue requirements still being met? Is  
20 everyone's revenue requirement being met at the end of the  
21 day?

22                   MS. LAZIC: The question is where does it come  
23 from, so who is picking up what portions of that ten percent  
24 that comes into the ISO grid-wide, ten percent a year.

25                   CHAIRPERSON KAHN: If you could make way for

1 the munis but don't go far.

2 Mr. Heath, do you want to introduce --

3 EXECUTIVE DIRECTOR HEATH: Yes. Thank you,  
4 Mr. Chairman.

5 On our agenda we have representing the  
6 municipal utilities Mr. David Freeman, Mr. Richard Ferreira,  
7 Mr. Bill Carnahan, Mr. George Fraser. Mr. Ferreira is with  
8 SMUD. Mr. Carnahan is with Southern California Public Power  
9 Authority. Mr. Fraser is with Northern California Power  
10 Agency.

11 CHAIRPERSON KAHN: Thank you for coming and  
12 patiently waiting. We have received letters from a number  
13 of you, and we have read those, but we are very interested  
14 in your concerns.

15 I think we'll ask Mr. Freeman, do you want to  
16 start?

17 MR. FREEMAN: Yes, sir. First of all I want  
18 to thank each of you for devoting the better part of your  
19 Good Friday to hearing us. We think this is above and  
20 beyond the call of duty, and we do appreciate it very much  
21 because this is the first opportunity that I feel that I  
22 have to present our point of view and to a body that will  
23 listen to us.

24 I took the initiative personally last December  
25 to get a whole group of municipalities to agree on a set of

1 principles which, if adhered to, we are willing to  
2 commitment ourselves as CEOs to go to our respective  
3 governing agencies and recommend joining the ISO.

4 I have a history with the ISO, the PX, and I  
5 think I'm as sympathetic and understanding of the public  
6 interest and our joining as anyone, and it's a mistake to  
7 think of a municipality as a coherent, united group. Anyone  
8 that's tried to get a bunch of cities to agree on the time  
9 of day I think understands that just getting that agreement  
10 was not easy but we did reach agreement.

11 And quite frankly, the ISO -- and we did  
12 consult with the executive director of the ISO, Mr. Winter,  
13 before we sent the letter to be sure that he didn't think it  
14 was just crazy. And we didn't approve the letter, but we  
15 went over it with him, and he felt that it was a  
16 constructive move on our part.

17 The ISO governing board correctly referred to  
18 themselves as a group of stakeholders. I helped lead them  
19 when they were stakeholders. They have become a board of  
20 directors, and they call themselves the Independent System  
21 Operators, but I think this is a classic example of the fact  
22 that they are still operating as stakeholders, the muni  
23 representatives just as much as the rest of them. I'm not  
24 saying we're better than anyone else.

25 But that group handled this problem as a

1 stakeholder group, and in my humble opinion, did not start  
2 off saying the public interest requires that these entities  
3 in California come into the ISO for purposes of reliability,  
4 which is the primary purpose of the ISO.

5               Los Angeles alone owns and operates today  
6 twenty-five percent of the transmission capacity in the  
7 state. Our loads require only ten percent, so we have a lot  
8 of surplus transmission capacity, which I'm ready, willing,  
9 and able to recommend to our city council that we turn over  
10 to the ISO, if we could just get terms where I could  
11 honestly say to the city council that we're going to kind of  
12 break even.

13               The interesting thing about this and the  
14 frustrating thing about it to me is they did the hard part  
15 right. They came up with a rate structure in year eleven  
16 that reflects the legislative history and rolls everything  
17 in. I don't think anybody can lay a glove on the final  
18 result.

19               But we face competition, like everybody else  
20 we're encouraged to do so. In years one, two, and three we  
21 live or die, and you have to live every year. Having a  
22 break-even situation or even a favorable situation in year  
23 eleven is very little persuasive ability.

24               When I go to the city council and say we're  
25 going to have to take a twenty-five-million-dollar-a-year

1 hit in year one and it will get a little better over a  
2 ten-year period, but these people at the ISO has come up  
3 with a fair and reasonable rate structure, but it will be  
4 implemented in eleven years.

5                   We don't know the ISO will be in existence in  
6 eleven years. We certainly don't know that we will be in  
7 existence, and we certainly are less likely to be if we join  
8 now.

9                   Now, I've tried real hard to figure out how we  
10 can skin this cat, and I made a proposal a week ago to the  
11 ISO on behalf of L.A. to says, it's simplistic but it gets  
12 the job done, saying that the transition route, the ten  
13 percent a year will be fifty percent in the first year and  
14 stay at fifty percent for the whole ten years. I never  
15 heard of a ten-year transition period anyhow, but that's  
16 what they want. I think we can live with that.

17                   But we're not talking about huge sums of  
18 money. If you take this impact that's going to be on  
19 members of the club that are already in and are controlling  
20 it, they and their customers, you are talking about one  
21 fourth of one percent of the total rate to the consumer.

22                   The focus on the transmission rate, which is  
23 the smallest part of anyone's bill is misleading. You are  
24 talking about twenty cents a month, or something like that,  
25 in order to persuade us to turn our transmission lines over



1 to the state, improve reliability, and all sorts of benefits  
2 which everybody agrees to but they haven't tried to quantify  
3 those benefits.

4                   And I say to you with all the strength I can  
5 muster that this is -- the people on the board are honest  
6 and public-interest oriented, but they have not shaken off  
7 their role as stakeholders and become independent board  
8 members.

9                   It may be inherent in the legislation that has  
10 the board selected the way it does. It may be a more  
11 fundamental problem than we can solve this morning, but this  
12 is a very clear example of where the private interests of  
13 the members has won out over the public interest of the  
14 state, in my opinion, but it can be solved very quickly by  
15 just accepting who is, as far as L.A. is concerned, by  
16 accepting the compromise that I have proposed.

17                   And I do think that it's important to  
18 recognize that giving up the surplus transmission capacity  
19 to the state is of benefit to the state and a serious loss  
20 of revenue for the city of Los Angeles so that we're not  
21 just bargaining here.

22                   And I think that anyone that knows anything  
23 about the governance system knows that I'm not the dictator  
24 of the Department of Water and Power. I'm the general  
25 manager, and I can recommend to the city council what we

1 should do. But unless I can come in with a proposition that  
2 I can say will enable us to be competitive, that isn't going  
3 to hurt us, then I don't see how I can make that  
4 recommendation and don't think that it would be approved  
5 even if I made it.

6 I hate to say this, but I have the impression  
7 that the ISO board has been more forthcoming in trying to  
8 get a utility in Nevada to join than in trying to get the  
9 municipalities in California.

10 CHAIRPERSON KAHN: I have a question.  
11 What data have you presented to the ISO that  
12 lays out what the economic consequences are to L.A.?

13 MR. FREEMAN: Well, we sent a letter in  
14 December, and we wanted to sit down and have some  
15 negotiations.

16 Instead they chose to have these deliberations  
17 that they did, and frankly, I was on a leave of absence from  
18 January 1 to March 7th so I don't know what happened during  
19 that period.

20 CHAIRPERSON KAHN: Excuse me?

21 MR. FREEMAN: But we have made our case to  
22 them.

23 MR. CATTINGTON: Leon Cattington, director of  
24 pole power, Los Angeles Department of Water and Power.

25 Through this process we've shared data back

1 and forth with the Cal ISO. We've shared a complete  
2 transmission revenue requirement annually through the whole  
3 ten-year transition period. We've shared with them what we  
4 perceive benefits and burdens of joining. Obviously there's  
5 a benefit of joining because of the reduced reserve  
6 requirement, but there's also some burdens from loss of  
7 revenues from our excess transmission.

8 CHAIRPERSON KAHN: That's before they made  
9 their proposal?

10 MR. CATTINGTON: Yes. Throughout this whole  
11 process we've been forthcoming with all of this data.

12 CHAIRPERSON KAHN: Right now they have a  
13 proposal that they've submitted to FERC; right?

14 MR. CATTINGTON: Yes.

15 CHAIRPERSON KAHN: Have you done an analysis  
16 that shows what the actual impact --

17 MR. CATTINGTON: Yes, we have.

18 CHAIRPERSON KAHN: Have you shared that with  
19 them?

20 MR. CATTINGTON: Yes, we have.

21 CHAIRPERSON KAHN: Have you shared that with  
22 us?

23 MR. CATTINGTON: Possibly not. Certainly with  
24 --

25 CHAIRPERSON KAHN: What does that analysis

1 show?

2 MR. CATTINGTON: It shows that the first  
3 several years we're in the red, roughly twenty million  
4 dollars the first several years. Then we come up to  
5 break-even around the fifth and sixth and coast out.

6 One of the big, big problems we have with the  
7 proposals on the table is the encumbered benefits. It's  
8 glossed over that the benefits go back to reduce  
9 transmission revenue requirements. That's politely to say  
10 that the money that flows back to the municipalities is  
11 encumbered in such a way that it's being regulated by the  
12 Cal ISO how that money is applied. And frankly we can't  
13 sell that to our city.

14 MR. FREEMAN: What Leon is saying is in  
15 addition to the economic problem of losing money in the  
16 early years, there are a couple of us here that raise policy  
17 questions that -- of having the ISO, in a sense, regulate  
18 the city of Los Angeles.

19 In other words, trying to prescribe exactly  
20 how the money in the L.A. power system is to be used is not  
21 something that we can sell to our city council, which acts  
22 as our regulatory body and has complete discretion to decide  
23 how our revenues are used.

24 There's also the tax question. Nobody argues  
25 about that, but we have to be assured that we won't lose our

1 visible tax status.

2                   The principal -- I think those other two  
3 concerns can be handled, the principal concern, and I tried  
4 to bridge the gap by saying okay, rather than going in the  
5 stair steps of ten percent a year over the next ten years,  
6 let's go to fifty percent and stay there and that removes  
7 the bulk of our early year problem and would enable me to  
8 recommend that we join. And we haven't gotten a response to  
9 that offer.

10                   CHAIRPERSON KAHN: Could we hear -- I  
11 understand that was very clear also.

12                   Can we hear from the other municipalities?  
13 Are their problems similar or different?

14                   MR. FERREIRA: My name is Dick Ferreira. I'm  
15 the assistant general manager at the Sacramento Municipal  
16 Utility District, SMUD, so it's a pleasure to be here while  
17 the lights are still on.

18                   As Dave indicated made an attempt early to get  
19 a statewide proposal from all the municipalities in  
20 California which ultimately was rejected by ISO.

21                   I've been on the ISO board since it started  
22 up. I was also one of the six members on the negotiating  
23 team.

24                   As Dave indicated the municipalities in  
25 California are situated differently. Those in the south are

1 different from those in the north, and those in the north  
2 are different from one another, so it's not an easy thing to  
3 come up with a comprehensive proposal that is going to make  
4 sense to all the folks.

5                   From SMUD's perspective, so you understand why  
6 I voted no on the ISO proposal that was filed with FERC,  
7 SMUD owns five percent or has contracts equally five percent  
8 of the transmission capability to the Pacific Northwest.

9                   Unlike Los Angeles, we use all of that to meet  
10 our loads. We don't have the excess we can make available  
11 currently. But in effect, what the proposal that's been  
12 filed with FERC, what it would ask SMUD to do is turn over  
13 our existing transmission that we own, turn over our  
14 contracts that we own, both of which provide benefits  
15 statewide to all consumers but asked SMUD customers here in  
16 Sacramento to pay more, and fundamentally that's not  
17 acceptable.

18                   I think the ISO's intent and process in trying  
19 to reach the resolution was a good start, but we didn't get  
20 to the finish line.

21                   The caps that you heard about earlier presents  
22 a problem and questions that Commissioner Willison raised  
23 were good questions that limit came out with our duty --

24                   The hold-harmless issue that the senator  
25 raised is also another good point. The hold harmless only

1 addresses two of the fees. The last time I looked the  
2 outside auditors report there were over seventy-one  
3 different charge types in the ISO system, so the hold  
4 harmless only address two of the fees.

5 SENATOR BOWEN: Let me try to bring this down  
6 to real world consequences. It so happens I'm an LADWP  
7 customer and a SMUD customer.

8 If the current proposal goes through, what  
9 happens to my two power bills?

10 MR. FERREIRA: In SMUD's case the cost would  
11 increase for your SMUD bill.

12 MR. WILLISON: Let me ask you: Because the  
13 transmission cost would go up or because you would be part  
14 of the Power Exchange and your cost of energy would go up?

15 MR. FERREIRA: What would go up would be the  
16 -- our transmission costs would go up on the one hand. All  
17 of the fees that we pay would go up on the other hand, and  
18 there would be -- and the offsetting benefits would not --

19 MR. WILLISON: The offsetting benefits would  
20 be the cash flow coming from the three public utilities.

21 MR. FERREIRA: The cash flow would not  
22 necessarily flow back to SMUD for transmission because we  
23 don't have a large transmission revenue requirement. We  
24 have a huge exposure with all of the ISO fees.

25 So the hold harmless -- my understanding of

1 the hold harmless would be to buy down the increases for  
2 those who didn't have transmission revenue requirements that  
3 would be reduced. Most of the utilities in Northern  
4 California do not receive a benefit on the cap, on the buy  
5 down, so they are exposed to all the other ISO fees.

6 So you need more money on the table. You need  
7 more money to deal with all the other charges associated  
8 with the grid operation that we don't currently pay.

9 SENATOR BOWEN: What's the benefit to me?

10 There's less of a chance that I will be  
11 dealing with brownouts or blackouts in the summer or does  
12 that change?

13 MR. FERREIRA: That's a good question. As  
14 Terry Winter indicates earlier the liability is not an issue  
15 with respect to whether we join or don't join.

16 SENATOR BOWEN: Inside the muni boundaries.

17 MR. FERREIRA: Not only within the muni  
18 boundaries but also in coordinating with the California ISO  
19 from a state-wide perspective we are offering up all of our  
20 resources. We'll be following the ISO rules and protocols  
21 when you get in a stage one alert. So from a reliability  
22 standpoint will not be impacted as to whether or not --

23 MR. FREEMAN: I want to answer Senator Bowen's  
24 question.

25 We will not increase your rate but our ability



1 to pay down our stated assets will be hurt and we will not  
2 be able to reduce our rates as much and we may not become  
3 competitive. We have to reduce our rates in order to become  
4 competitive. We have been on a tremendous cost-cutting  
5 effort to pay off four billion dollars of stranded assets  
6 that we're over halfway there, and this would be a body blow  
7 to that effort and would hurt our ability to be competitive.  
8 We would not raise the rates. We're looking forward to  
9 lowering the rates.

10 CHAIRPERSON KAHN: What about the other  
11 representatives?

12 MR. FRASER: I'm George Fraser, general  
13 manager Northern California Power Agency. I'll try not to  
14 reproduce or repeat some of what you've already heard. I  
15 represent some fifteen utilities in Northern California.  
16 The largest is Santa Clara and some of the various small  
17 ones are small indeed.

18 I want to remind you and ourselves that we are  
19 focused on low rates and customers and not profit, and much  
20 of what's gone on in the last couple of years has been  
21 associated with profit-making organizations, and we are  
22 fundamentally different, and that's something at the heart  
23 of what's going on here.

24 We are still and will intend to remain  
25 integrated utilities. By that I mean we own generation, we

1 have transmission that we own, and we have contracts to  
2 bring transmission on our cities from generation that we  
3 own.

4                   In the Northern California Power Agency's  
5 situation we have transmission and loads which are embedded  
6 in PG&E's transmission grid, so we use their, not the ISO  
7 grid, to deliver that power, and we need that to be firm and  
8 firm to our customers so we can continue to serve our  
9 customers at the lowest overall rate.

10                   Having said that, let me tell you that right  
11 from the start we intended and believe that in the long run  
12 we will be part of the ISO. The issue is cost. And every  
13 time we look at the cost, they look like they are increased  
14 and we are going to have to increase our rates to our  
15 members.

16                   Even our members are somewhat different. Some  
17 of them own proportionally more or less transmission,  
18 proportionally more or less generation. They are not all  
19 uniform in that regard, so the impact on NCPA members is  
20 different. As you go amongst the members, some show no cost  
21 impact joining the ISO and others show pretty significant  
22 impact.

23                   I must say that we have been negotiating, as  
24 you've already heard -- let me back up a touch.

25                   Another big issue for us is the federal power.

1 About fifty percent of our total energy that goes to the  
2 members of NCPA comes from the federal projects, so how the  
3 ISO is dealing with the federal generation and transmission  
4 is a very important issue for our members.

5 Let me just say that we have been actively  
6 participating in the negotiations with the ISO. They  
7 haven't been successful at this point. We continue to hope  
8 for some success in that regard. Cost is our big issue.

9 The existing TAC filing we feel is incomplete.  
10 In fact we've tried to cost it out and have been incapable  
11 of developing the cost. We don't know what happens on firm  
12 transmission rights and our ability to wield power firmly to  
13 our loads, so we have not been able, with the current filing  
14 before FERC, to make those calculations.

15 CHAIRPERSON KAHN: Thank you for that.

16 Has SMUD, have you made FERC calculations?

17 MR. FERREIRA: Yes. We've done our analysis  
18 on the FERC filing, and we've briefed our board.

19 CHAIRPERSON KAHN: What's the filing  
20 magnitude? I take it it's a cost magnitude not a benefit?

21 MR. FERREIRA: It's a cost impact.

22 CHAIRPERSON KAHN: How much?

23 MR. FERREIRA: We're not prepared to address  
24 that at this point.

25 I'd like to add one point that our board feels

1 strongly about that was in the body -- and that is our board  
2 feels strongly about the existing authority to set  
3 transmission rates through public process, and the filing  
4 here is trying to introduce another layer in terms of the  
5 review of those rates, which we find objectionable.

6 CHAIRPERSON KAHN: Go ahead, sir. Sorry for  
7 interrupting.

8 MR. FRASER: What do we want might be an  
9 appropriate question, and I want to say there's a couple of  
10 things very clearly: We want firm transmission from our  
11 sources to our loads, not have an uncertain situation  
12 involved in many of the congestion management protocols that  
13 may be appropriate for merchant power plants but are  
14 inappropriate for us where we are and intend to continue as  
15 integrated utilities.

16 We are willing to put up with comparable cost  
17 transmission so our customers pay no more and no less than  
18 other customers throughout the state.

19 One of the things that's very important to us  
20 and we urge you to focus on this and this is effective cost  
21 management regarding the ISO. We're not comfortable with  
22 the being effectively managed at this point. And lastly,  
23 Dick Ferriera just mentioned local control is and will  
24 remain critically important to us.

25 Let me just briefly say that regarding the

1 reliability for this summer, all of these are -- the NCPA  
2 utilities all have sufficient resources to meet their loads  
3 this summer, and while there is a problem in this state, we  
4 will participate in all the different stage alerts,  
5 curtailments, if necessary, and all of our generation is  
6 committed, all our transmission is committed to the ISO, and  
7 we will make sure that it is all available, indeed, at any  
8 time that there is an emergency this summer.

9 CHAIRPERSON KAHN: Thank you very much.

10 MR. FREEMAN: Chairman, can I have one more  
11 word?

12 CHAIRPERSON KAHN: I'll give you as many as  
13 you want, but I would like to hear from Southern California  
14 Power Authority first.

15 MR. CARNAHAN: I'm Bill Carnahan the executive  
16 director for SCPPA, we call it. It's a parallel agency to  
17 Northern California. I think you are fortunate today  
18 between the four or five of us sitting up here in one way or  
19 another we represent virtually all of the municipal systems  
20 within the state of California.

21 We have eleven members in SCPPA going from the  
22 largest being L.A. to some very, very small ones like the  
23 town of Banning, which includes Riverside, Glendale,  
24 Pasadena, Burbank, and within that group we have a lot of  
25 diversity and different interests as well. A couple of our

1 members are incorporated in L.A.'s load control area, so  
2 they have different issues than the balance of us who are in  
3 Edison's old load control area, the new TAC area, if you  
4 will, and our membership also includes the Imperial  
5 Irrigation District. I'm not sure where they fit in all of  
6 this. They tend to be more closely aligned with other  
7 states than California.

8                   But I think from the balance of the SCPPA  
9 member perspective, our concern is really the one of the  
10 value or the vintage question where we have invested on  
11 behalf of our customers in transmission facilities for which  
12 those customers are responsible for paying for.

13                   And under the current proposal on file at FERC  
14 there is a cap, and I think by definition the cap means that  
15 our customers are not going to be fully compensated for the  
16 value that they bring to the table.

17                   Now, there may be other pluses and minuses in  
18 our relationships with the ISO, but certainly the caps with  
19 regard to the transmission access charge, which is really  
20 the subject that we're talking about now, does not fully  
21 compensate our customer for that investment.

22                   So what we're being asked to do is bring a  
23 value of X to the table for the benefit of all California  
24 rate payers and receive X minus something in return for  
25 that.

1                   CHAIRPERSON KAHN: Have you done those  
2 numbers?

3                   MR. CARNAHAN: Well, the total cost impacts  
4 statewide including L.A. are somewhere between a hundred  
5 seventy to two hundred million dollars. The caps are, as  
6 you've talked about, seventy million or there about. If you  
7 take L.A. out of the equation, because they are a separate  
8 TAC area and they are on a ten-year transition, just from  
9 the TAC area alone you are talking about a thirty-,  
10 forty-million-dollar shortfall. And even if it were a  
11 five-million-dollar shortfall it's difficult for us to go  
12 back to the city councils and say in some fashion we need to  
13 subsidize our involvement in the ISO.

14                   That's not to say that some of the so-called  
15 soft benefits that this whole process had a very difficult  
16 time quantifying might not offset that, but by the same  
17 token that may add to that, and some of George's concerns in  
18 the north, that's where their impacts are. When Dick talked  
19 about the seventy some charges, most of those are in the  
20 soft -- category, so we don't know how those are going to  
21 wash out.

22                   So part of the problem at this stage is  
23 there's a great deal of uncertainty and it's very difficult  
24 to go to an elected body, city councilmembers, and say  
25 "Trust us on this. In five years, ten years it will work

1 out," even though in some cases we know that there will be a  
2 hit in the early years.

3                   That's the major subject matter of what we're  
4 talking about is the end point is correct. Dave is correct,  
5 we all agree the grid-wide charge is where we need to end  
6 up, but we're talking about are the impacts during the  
7 transition period and our customers and members feel exactly  
8 the same way that that needs to be improved so such that we  
9 can remain neutral and go in with a straight face and in all  
10 honesty tell our councils that that's the case.

11                   We want to join. We think we need to be in  
12 the ISO, but we cannot do it at a cost.

13                   MR. FREEMAN: On the issue of reliability, I  
14 want to be as clear as I can. All of us, I think, are  
15 ready, willing, and able to cooperate with the ISO through  
16 this summer and do what we can, but I won't readily concede  
17 that if we were all in the ISO and it was completely  
18 integrated, that that would be an additional benefit that  
19 you would have a pool that was much larger, just from an  
20 insurance rationale, the larger of the pool, the lower the  
21 risk.

22                   And we have surplus capacity in the Los  
23 Angeles area that if integrated completely I think brings  
24 some value. Having said that, we are not going to be  
25 shipping power down to the Arizona if it's needed in



1 California, even if we can make more money doing that.

2                   So I wanted to be sure that you understood  
3 that we are ready, willing, and able to cooperate, but there  
4 would be an additional element of reliability, I think, if  
5 we were all members.

6                   The other point I want to make is that we are  
7 very sincere in wanting to settle this thing here in  
8 California. We have a deadline of Friday, and we had to  
9 make a filing in response to the ISO filing, and so this  
10 issue is now joined before FERC, but that doesn't mean that  
11 we can't still settle it before FERC's process gets around  
12 to taking action on it. And I've been trying as best I can  
13 to come up with ideas that bring us together.

14                   We have a tiny amount of money out of the  
15 total electric bill of the state that we're talking about  
16 here, and having the wisdom to come up with the right answer  
17 on the rate design in year eleven, all we're asking is that  
18 it be implemented in a somewhat speedier fashion so that we  
19 don't have to try to go to a city council and persuade them  
20 to take a hit in the early years that they are not going to  
21 take.

22                   MR. WILLISON: Just kind of follow-up  
23 philosophy question because several of you talk about the  
24 short-term hits, long-term benefits.

25                   The present value of whatever it is we are

1 doing together hopefully would be very positive. And in  
2 your case you are talking about accelerating the cost  
3 coverage to two years.

4                   Would you be amenable to revenue sharing or  
5 net profit benefits of sharing back over some period of time  
6 to if there was added costs?

7                   MR. FREEMAN: We'll consider anything, as far  
8 as I'm concerned, that we can take to our city council and  
9 say "This is a break-even situation." But you realize that  
10 the early years is when competition begins and where we've  
11 been working the last two or three years to pay off bad  
12 debts and to get our rates competitive, and therefore the  
13 hit in the early years can't be dismissed on a present value  
14 basis.

15                   MR. WILLISON: I understand.

16                   CHAIRPERSON KAHN: Mr. Freeman, there were a  
17 lot of things that you said that I agreed with and didn't  
18 agree with, but one thing I want to make clear that I do  
19 agree with: I cannot imagine that it's in the interest of  
20 the people of the state of California to have this  
21 disagreement resolved in FERC.

22                   It seems to me -- you've made some comments  
23 about the whole structure of the system, which I'm sure the  
24 legislature will be thinking about, but it seems to me that  
25 if we can't figure out how to resolve this, if we do send it

1 to FERC, and if this board has to figure out what brief to  
2 file at FERC in order to meet your brief and meet the brief  
3 that's filed by the ISO, and the people of the state of  
4 California have to file three, four, five, six briefs in  
5 FERC to let some people in Washington decide how the  
6 municipalities are going to join the ISO or not, that  
7 strikes me as very, very contradictory to the people of  
8 California. So we need to do what we can to avoid that.

9 Anybody on the panel have any questions of the  
10 municipalities? Any other comments you would like to make?

11 MR. FRASER: Let me just say in that FERC  
12 regard, looking at it from our perspective, we've been very  
13 frustrated by our inability to move this to a successful  
14 conclusion negotiating here in California.

15 So from our perspective times it looks like  
16 maybe FERC is our one lifeline we see out there, so help us  
17 understand why we wouldn't be --

18 CHAIRPERSON KAHN: I understand that. And  
19 that's strikes me as an unfortunate structural result that  
20 happens.

21 Well, you've been all very helpful. Thank you  
22 very much, very much for taking your time.

23 MR. ROZSA: Mr. Carnahan, can we go back over  
24 the numbers you talked about there? You said a hundred and  
25 you seventy-two --

1                   MR. CARNAHAN: I didn't know how -- those are  
2 actually ISO numbers. I would have to say that throughout  
3 the process I don't think we've had any dispute over the  
4 hard numbers. We did -- NCPA may but the hard numbers, the  
5 grid management charge, transmission access charge which  
6 were the subject of the settlement discussions, I believe  
7 those are their numbers.

8                   MR. ROZSA: Those are the numbers you are  
9 referring to when you talk about the hard numbers?

10                  MR. CARNAHAN: Yes.

11                  MR. FREEMAN: The frustrating part about this  
12 is the hard part we agreed on.

13                  MR. ROZSA: I didn't mean to argue in the same  
14 way.

15                  MR. FREEMAN: The end result, the rate  
16 structure.

17                  MR. CARNAHAN: I guess I used the abbreviated  
18 numbers. In my mind we have a cost shift in those  
19 categories of roughly two hundred million dollars, about  
20 fifty percent of that is L.A. and rest of that is another --

21                  MR. ROZSA: And you refer to those as hard  
22 numbers, and those are the differences between what you  
23 would receive in the cost shift from the -- customers and  
24 what you see as the --

25                  MR. CARNAHAN: What our customers pay.

1                   MR. ROZSA: What you see would be the  
2 additional charges visited upon you by participating in the  
3 ISO; right? And I mean, is that correct?

4                   MR. CARNAHAN: It basically represents our  
5 transmission access charge to our customers today.

6                   MR. ROZSA: Which you have already.

7                   MR. CARNAHAN: And the rolled in cost average  
8 to shift from the obligation of our customers to pay for  
9 those transmission facilities to the statewide average rate  
10 because there is a difference. That's the shift we are  
11 talking about.

12                   Currently that's being paid by our customers  
13 for the value of those facilities, the vintage problem, to  
14 rolling it into the average. That's the shift we're talking  
15 about, and that's where the cap applies to that shift.

16                   MR. ROZSA: That applies to how much the IOUs  
17 put in to recover those costs?

18                   MR. FREEMAN: Plus the Los Angeles case, the  
19 transfer to the state of an enormous transmission that's  
20 ours now that we get revenues from.

21                   MR. ROZSA: So also the revenue, the  
22 opportunity costs of that transmission.

23                   MR. FREEMAN: That's rather conservative.

24                   MR. FRASER: In Northern California we have  
25 the newest transmission. It looks like on the order of ten

1 million dollars a year extra cost, in our analysis.

2 MR. ROZSA: But referring to these so-called  
3 hard numbers, there's a fairly clear agreement between you  
4 and the ISO on these?

5 MR. CARNAHAN: My understanding in the  
6 negotiations with the committee there was pretty much an  
7 agreement to use those as base numbers.

8 MR. ROZSA: And the source of disagreement has  
9 to do with how you evaluate the benefits?

10 MR. CARNAHAN: So-called soft numbers, soft  
11 benefits.

12 MR. ROZSA: Could you itemize or broadly  
13 characterize what you view as being the soft benefits?

14 MR. CARNAHAN: Dick has a better handle on  
15 that.

16 MR. FERREIRA: The soft benefits would  
17 include, for example, benefits of lower prices in the market  
18 because you have less congestion. You would have benefits,  
19 in the case of Los Angeles and SMUD, our reserve  
20 requirements would be lower as a result of participating in  
21 the ISO than operating our systems on a standalone system  
22 basis.

23 MR. ROZSA: That would be for SMUD and L.A.?

24 MR. FERREIRA: SMUD and L.A.. The difficult  
25 thing is you are capping the benefits associates with the

1 transmission revenue requirement cost that have to take  
2 place, but you are not capping the cost exposures.

3                   On the other hand from SMUD's perspective,  
4 twenty percent of the energy for Sacramento is actually  
5 supplied through Western, and Western's transmission costs  
6 are lower than the statewide grid, so some of the money has  
7 to be used to buy down for Western deliveries, wind up  
8 paying more than we pay today.

9                   So if you have a buy down on a hold harmless,  
10 that addresses that issue. You haven't addressed all the  
11 other grid operation cost issues. That's the cost exposures  
12 plus congestion exposure that we haven't been able to  
13 resolve.

14                   MR. FREEMAN: The major benefit, the increased  
15 reliability, there's been no attempt to quantify. It's not  
16 soft or hard. It's nonexistent in terms of the equation.

17                   MR. ROZSA: Let me ask you: How do you see  
18 that the system would have improved reliability from your  
19 membership? How would you describe it?

20                   MR. FREEMAN: Not more my membership, but the  
21 state as a whole, we have a surplus, and if we integrated  
22 that with the whole state it's going to help the reliability  
23 for the whole state. And we have surplus transmission which  
24 will help avoid congestion, and if one entity --

25                   The whole idea of this grand advance that the

1 legislature enacted wisely is that we have one electrical  
2 highway in the state that prices could be lower and service  
3 could be better, and we're just trying to lay the foundation  
4 for making that happen. And that is a tremendous benefit,  
5 in my opinion.

6                   It is difficult to quantify, so what has  
7 happened is we've quantified the things that are pretty easy  
8 to quantify, but the major objective of the statute, which  
9 is to improve reliability in the state, and the fact that  
10 together we have thirty, thirty-five, forty percent of the  
11 transmission integrating that, the benefit of that, there's  
12 been no attempt to quantify.

13                   That's why I'm frustrated about the  
14 decision-making process, which seems to put more emphasis on  
15 tiny matters of cost to the existing members than the public  
16 interest in getting the state's transmission grid integrated  
17 and under one set of operations, and they are doing an  
18 excellent job in running the part of the transmission system  
19 that they have. That part of it is being done quite  
20 beautifully, I think.

21                   MR. ROZSA: Let me finish your sort of  
22 accounting of what you consider to be the soft benefits. We  
23 have three, just trying to get a sense of what these things  
24 are.

25                   MR. FERREIRA: The efficiency in terms of just



1 the administration of the ISO and complexity of trying to  
2 design all the scheduling protocols, all the billings and  
3 settlements with having a system for those participating  
4 versus those not participating, just the managing of  
5 existing contracts that soft benefit that should help to  
6 keep the cost lower for the operation of the California ISO.

7                   The efficiency that you would gain, as Mr.  
8 Freeman indicated, using the grid more efficiently, even  
9 though we've agreed to essentially integrate equivalence,  
10 integrating our transmission system during the summertime in  
11 order to deal with what we foresee as some critical energy  
12 supply situations over the next few years, as Mr. Winter  
13 indicated.

14                   CHAIRPERSON KAHN: Okay. Thank you all very  
15 much. It was a very helpful presentation.

16   (Discussion off the record.)

17                   CHAIRPERSON KAHN: Mr. Winter, you are invited  
18 to come back up here and join --

19                   MR. SMUTNY-JONES: I'll be brief. I feel  
20 compelled to defend the integrity of the ISO board and the  
21 process used to address what can only be described as an  
22 extremely difficult issue.

23                   This issue has two components to it: One is  
24 religious, which makes anything going on in the Baltics look  
25 like a picnic, and second is reallocating money. Neither

1 one of those are easy issues.

2                   In fact, the California legislature, which did  
3 a good job of resolving a number of insurmountable issues,  
4 and I am suggest we address these issues and in their wisdom  
5 kick it to us to figure out how to do it within two years of  
6 our creation.

7                   In addition to that, you know, it is very  
8 clear to the ISO board that there is a very real public  
9 interest, both from the perspective of answer liability and  
10 lowering cost by removing phantom congestion that we believe  
11 will result in a lower cost. It's in the public interest  
12 for us to do something here.

13                  Mr. Freeman made some suggestions about the  
14 behavior of the ISO board that are just plain wrong. The  
15 ISO board, including it municipal members, who may disagree  
16 on this issue, operates as an independent entity.

17                  We tried to deal with this issue as well as we  
18 could. The reality is is that the load participants on our  
19 board pretty much control the direction that the board  
20 ultimately goes; okay? Those load participants exist not  
21 just in ISO service territories but in munis' as well.

22                  And what was ultimately filed at FERC was an  
23 attempt to try to come up with a middle ground position;  
24 okay? That's a very difficult issue. I think they got most  
25 of the religious issues off the table. Obviously they

1 didn't resolve all the dollar issues.

2 I am also in agreement and have been in  
3 communication with various people that this is best settled  
4 in California. I don't think FERC will act on it if it's  
5 not resolved here. I wouldn't if I were them. And even if  
6 they did, the FERC can not order munis to join the ISO. As  
7 a practical matter if we want the munis in, we will have to  
8 resolve the issue here.

9 We're open to suggestions about how best to  
10 settle this, but we had a legislative deadline we had to  
11 meet, which was March 31st, and I can tell you as someone  
12 who is painfully aware of this issue. It's been going on  
13 for a long time. There's nothing new here. At least have a  
14 proposal out there gives people something they can talk  
15 about rather than some abstract concept of what everybody's  
16 wish list is.

17 It's safe to say, Mr. Winter, you indicated  
18 earlier, probably nobody is happy here. I don't think you  
19 have to ask the IOUs if it was a good idea. We wouldn't get  
20 a yes.

21 But the point is we did the best we could  
22 under the circumstances on a time delay, and we will  
23 entertain any proposal for compromise that ultimately ends  
24 up in the public interest. Thank you.

25 MR. WILLISON: Does your analysis concur that

1 there is short-term or front-end costs to the municipals?

2 MR. WINTER: Our analysis identified that  
3 there were some short-term, but we readjusted -- again, you  
4 have to be careful because what we applied were some  
5 benefits that we thought people would get, and that was the  
6 big debate whether you get those benefits.

7 But in our proposal we tried to move those  
8 dollars in such a way that nobody was hurt year one.  
9 There's quite a number that get zero benefit year one,  
10 weighing the benefits against those, and then as you move  
11 into years two, three, four, five the numbers start  
12 escalating rapidly, and as was expressed, by year ten you  
13 pretty much have all the shift out of it and you're moving  
14 forward.

15 That is a long time to wait. We recognize  
16 that, but on the other hand, you can only do so much  
17 movement of dollars, or in my opinion, you have to  
18 compromise with people what they are willing to put into it,  
19 so that's why we ended up with the compromise we did.

20 CHAIRPERSON KAHN: Any questions?

21 I would just like to make an observation, and  
22 it seems to me that the forces of cost demonstration are  
23 doing a better job than the forces of benefit demonstration.

24 And it seems to me that at some point sitting  
25 in my seat worrying about people of the state, I hear a lot

1 of extra cost, extra cost, extra cost, but I don't hear a  
2 lot of quantification of the benefit. I hear mom and apple  
3 pie that there's benefit that we'll have increased  
4 reliability and -- I understand all that.

5 But at some point we're going to ask there be  
6 additional costs to the rate payers and citizens, I think we  
7 need to do a better job in quantifying the benefits. There  
8 isn't any question if you can show that there's increased  
9 reliability, the cost of interruptions, cost of blackouts  
10 and brownouts warrant the additional cost here.

11 And so if you are right, clearly the costs  
12 exceeds the -- excuse me -- the benefits exceed the costs,  
13 but if you look at your chart here where you have benefits  
14 and costs, your costs are in numbers and your benefits are  
15 in words, and I think we're not at the end of this debate by  
16 a large margin. We have a long way to go, and as one of the  
17 newest to this problem and least educated, I'll make the  
18 observation that you've got to make a case better to justify  
19 your costs, seems to me.

20 MR. WINTER: We have those numbers, and you  
21 know, if you look at phantom congestion, it's very simple  
22 that if we used what we had today that that would benefit  
23 California to about seventy-five million dollars. If you  
24 look at the sale of FTRs, if you use the price we got last  
25 year, that would benefit the state to a hundred and

1 sixty-six million.

2                   The question then comes in, okay, if you add  
3 the line, what is the congestion and how much congestion  
4 would you have in the future with this line? And that is  
5 wherein lies our problem because we don't know how  
6 generation is going to dispatch.

7                   In the old world we'd say here's how we're  
8 going to dispatch generation, therefore, here's the  
9 congestion, therefore here's a hard dollar. Today every day  
10 is a new world on who bids in and who wins the bid best  
11 based on a competitive market, so you can't -- I'm not  
12 giving you an excuse. It's just you can come up with  
13 ranges. We apply our best value. People will apply another  
14 best value.

15                  And so I can go through and say market  
16 efficiency would drop by one percent, which would be fifty  
17 million. If you can get the market more open and increase  
18 competition, not in the ISO but in the PX market where the  
19 real dollars are, you could move fifty, a hundred million  
20 dollars a year savings.

21                  But to quantify those we have to set a series  
22 of assumptions and people to back the assumption, so we try  
23 to take a very conservative approach.

24                  CHAIRPERSON KAHN: Senator?

25                  SENATOR BOWEN: I actually am thinking on a

1 similar line to that, but my question are: If there are  
2 these economic benefits, how do we match the recipients of  
3 those benefits? How do they end up paying a share of what  
4 the increased costs will be? Who are the greatest  
5 beneficiaries, and how does that proposal that's filed at  
6 FERC match who gets the benefits against who bears the  
7 short-term costs?

8 MR. WINTER: Well, the short-term cost, of  
9 course, everybody agrees on the long-term goal, which is  
10 rolling all the costs into everybody who is paying, and  
11 that's why I tend to think it's not so much a matter of  
12 benefits.

13 Mr. Freeman stated that he's not getting  
14 adequate compensation for his transmission lines. One of  
15 the things that's not in our filing is how we're going to  
16 handle firm transmission rights, which is an auction of  
17 those values, which goes right to the heart of the question  
18 of what is transmission line value. And we auction those  
19 every year, which to me is a very strong indicator of what  
20 that transmission line is worth, and it will increase in the  
21 years.

22 SENATOR BOWEN: Don't you have a situation  
23 where some of the munis have set up on their own a scheme  
24 that does not put their firm transmission rights into the  
25 auction block?

1                   You have a lot of people in businesses in this  
2 state who are engaged in transactions not based on the idea  
3 that they might be disadvantaged at some point because  
4 somebody else in some other part of the state needs more  
5 electrons.

6                   How do we deal with that?

7                   MR. WINTER: I'm not following what you are  
8 saying.

9                   SENATOR BOWEN: If you are going to auction  
10 firm transmission rights, and you have customers in some of  
11 the areas who have have made arrangements right now that can  
12 be overridden by that auction because their customers are  
13 paying two and somebody else is willing to pay two X.

14                  MR. WINTER: If you look at the owner of the  
15 transmission rights, be it the utility or the municipality,  
16 they just buy back those rights.

17                  So they go into the auction, and let's say you  
18 want a thousand megawatts to go from A to B, you put it in  
19 the auction, if the price goes to a hundred million dollars,  
20 you go pay a hundred million because it will be coming in  
21 from somebody you just matched that bid, and you retain that  
22 right. So that's why I'm not sure I'm following your  
23 question.

24                  SENATOR BOWEN: I think that's a question:  
25 You are asking them to buy back what they have now?



1 MR. WINTER: Why not?

2 MS. SMUTNY-JONES: Let's be clear on this:

3 They are getting the revenues back from that auction. The  
4 IOUs could make the same argument, but the FTR auction was  
5 out there --

6 SENATOR BOWEN: I'm not looking at this from  
7 the standpoint of the IOUs and munis. I'm looking at it  
8 from the standpoint of the customers who have been engaged  
9 in this series of transactions for some number of years,  
10 have an elected governing board, have gone through various  
11 kinds of arrangements in order to secure certain kinds of  
12 advantages or benefits for the businesses they operate or  
13 for the residences in which they live.

14 How do they deal with the ultimate result of  
15 this? I mean, that's who I'm focused on. It's not what is  
16 the muni doing. What happened to the customers of the munis  
17 and in the case where there are these investments that are  
18 outstanding, how do those -- as somebody who lives in the  
19 city of Los Angeles, what what am I supposed to do?

20 MR. WINTER: I guess I don't understand where  
21 the stranded costs would come in because you are paying for  
22 the transmission facilities now in your revenue  
23 requirements, you just have another whole portion of the  
24 state to help you pay for that transmission.

25 CHAIRPERSON KAHN: We are going to have to

1 technology breakdown.

2 Mr. Heath, do we need to make a decision about  
3 this today?

4 EXECUTIVE DIRECTOR HEATH: Let me ask Mr.  
5 Saltmarsh. He should respond since --

6 MR. SALTMARSH: As was pointed out today was  
7 the date for filing interventions with the FERC and the  
8 parties who have protests.

9 CHAIRPERSON KAHN: Did we do that?

10 MR. SALTMARSH: We filed an intervention. It  
11 was nonsubstantive. It made the best effort to preserve the  
12 right to file more substantive briefs later on.

13 CHAIRPERSON KAHN: When will we have to file  
14 the substantive?

15 MR. SALTMARSH: There is is no date. The  
16 farther down the road we got, if FERC was working on this,  
17 the more they sort of want a discount in changing directions  
18 because they have a late file.

19 CHAIRPERSON KAHN: So this is a to be  
20 continued?

21 MR. WINTER: I think the way this unfolds is  
22 FERC will take this. There will be intervenors. As long as  
23 you hold your place in line they will scope it in for  
24 hearings. We will go through a year or two of debating this  
25 in front of FERC, and that's why I'm taking the position

1 that we do need to solve it here in California and continue  
2 to work on it. In the meantime we have to start the process  
3 of moving forward and also remember even if FERC decides  
4 something, nobody has to join.

5 CHAIRPERSON KAHN: Right. We understand that,  
6 and I think we're going to draw today's discussion to a  
7 close, and we want to thank all of you.

8 I can tell you that what we would like to do  
9 is help facilitate a resolution both in terms of these  
10 meetings and between the meetings, and we thank both parties  
11 very much. This was very, very helpful, and we do intend to  
12 have an active role in understanding what's going on.

13 EXECUTIVE DIRECTOR HEATH: Mr. Chairman, we  
14 had a representative from the Department of Water Resources  
15 party in this proceeding at the state agency.

16 Can we do a couple minutes with that  
17 individual?

18 CHAIRPERSON KAHN: Will that be the last item  
19 we have today?

20 EXECUTIVE DIRECTOR HEATH: That's the last  
21 item I have, Chairman Kahn, the users -- if I could have a  
22 couple --

23 CHAIRPERSON KAHN: We have to give the  
24 reporter five minutes -- ten minutes.

25 (A brief recess was taken.)

1                   CHAIRPERSON KAHN:  Let's wrap it up.

2                   Would you be kind enough to introduce  
3  yourself?

4                   MR. PATEL:  Sure.  Thank you for having me  
5  here.  I'm Viju Patel, executive manager and Power Systems  
6  for the California Department of Water Resources.  They are  
7  a little different than municipal utilities.  We control our  
8  loads, and we also control our resources just to give you a  
9  background on what we do and how we fit into the bar cyst  
10 power system bear with me.

11                  DWR is responsible for operating California  
12 State Water Project, which represents an investment of more  
13 than four point five billion dollars.  State Water Project  
14 delivers water for domestic, industrial and agricultural  
15 uses through a complex system of reservoirs, power plants,  
16 pumping plants, and aqueducts.

17                  The power requirements for the SWP make it the  
18 largest single power consumer and transmission user in the  
19 state.  State Water Project on average uses five to six  
20 billion kilowatt hours of energy annually.  Maximum usage of  
21 energy has been nine billion kilowatt hours megawatt of  
22 generation, and finally it's used to meet requirements for  
23 DWR pumping stations to DWR is provided by PG&E under  
24 existing contracts.  We don't own any transmission systems.  
25 It involves multiple points of receipt and delivery to and

1 from their transmission systems.

2                   The rates, terms, and conditions for  
3 FERC-regulated service from PG&E and SCE under DWR's existing  
4 transmission contracts provide seamless service to integrate  
5 DWR's generation and pump loads throughout California.

6                   Under restructuring DWR will continue to  
7 require FERC-regulated transmission service from the ISO  
8 over essentially the same paths provided under existing  
9 contracts with PG&E and SCE.

10                  As the largest single transmission user in  
11 California and the holder of the largest amount of existing  
12 contract rights on congested paths within the ISO controlled  
13 grid, DWR is aware that its participation in ISO would  
14 provide significant benefits to ISO and its market  
15 participants without raising concerns-of-cost shifts  
16 resulting from DWR's participation.

17                  DWR strongly supports aspects of TAC proposal,  
18 including the bifurcation of the access charge into two  
19 tiers, high voltage and low voltage. DWR also supports the  
20 ISO's proposal to base ISO transmission rates on an hourly  
21 energy charge as being consistent with transmission services  
22 offered by the ISO.

23                  DWR's most serious concern regarding the ISO's  
24 TAC proposal is that its rate design does not consider  
25 transmission users' contribution to peak or other factors

1 relating to cost causation.

2                   Incorporation of time-differented transmission  
3 rates for the ISO access charge would remedy this deficiency  
4 by providing just and reasonable rates based on principles  
5 of cost causation.

6                   Additionally, DWR has reservations regarding  
7 ISO's proposals for a hold-harmless arrangement. Our  
8 concern is that we cannot quantify what the consequences of  
9 the hold-harmless cause would be to DWR, and that's our  
10 concern.

11                   We plan to resolve the issues under dispute  
12 through FERC process and direct discussion with ISO.

13                   CHAIRPERSON KAHN: Any questions?

14                   MR. WILLISON: Just a quick question: Can you  
15 vary the time that you are pumping the water and that type  
16 of thing to be off peak hour?

17                   MR. PATEL: Yes. We operate the majority of  
18 our loads during off peak hours and minimize the loads  
19 during on peak hours and maximize the generation during on  
20 peak hours.

21                   MR. WILLISON: Thank you.

22                   CHAIRPERSON KAHN: What process are you using  
23 to negotiate with?

24                   MR. PATEL: We are in direct contact with ISO.  
25 We negotiated or discussed the issues that we are trying to

1 support.

2 CHAIRPERSON KAHN: Mr. Rozsa?

3 MR. ROZSA: Now DWR is a state agency; is that  
4 correct?

5 MR. PATEL: That's correct.

6 MR. ROZSA: And your budget, how are you  
7 funded?

8 MR. PATEL: The state water project is funded  
9 by the twenty-nine water contractors.

10 MR. ROZSA: So you charge your water  
11 contractors fees?

12 MR. PATEL: At the end of the year whatever we  
13 have spent we bill them.

14 MR. ROZSA: So if your costs change that would  
15 be reflected in the cost of your water contractors?

16 MR. PATEL: Absolutely, that's correct.

17 MR. ROZSA: I would only point out something  
18 that Senator Peace has said a number of times, and he thinks  
19 that all state agencies should be on the same page on this  
20 and in terms of how they deal with TAC matter.

21 And so it would be important for the  
22 department to make certain that its views conform with those  
23 of the Public Utilities Commission, and the Oversight Board  
24 so that the state is represented, you know, in an integrated  
25 fashion at the FERC as opposed to seeing itself as a

1 separate entity.

2 MR. PATEL: We have coordinated and arranged  
3 with Gary Heath.

4 MR. ROZSA: What do you mean you coordinated  
5 your invention with Gary Heath?

6 MR. PATEL: We'll give it to them for --

7 MR. ROZSA: It's not quite the same thing.

8 CHAIRPERSON KAHN: Yes, ma'am.

9 MS. MAHMUD: If I might beg the board's  
10 indulgence I. Represent the Metropolitan Water District of  
11 Southern California. My name is Diana Mahmud. We represent  
12 by far the single largest contractor to the state Department  
13 of Water Resources, and we pay approximately seventy percent  
14 of DWRs power costs. And Mr. Patel is slightly correct in  
15 any power cost that Department of Water Resources incurs  
16 they will pass along to the state water contractors.

17 In response to Mr. Rozsa's question I am very  
18 pleased to report that back in the filings that were made by  
19 the CPUC in June of 1997 responding to the trustees phase  
20 two filings for ISO and FERC, this is the preliminary  
21 filings that detailed the tariffs, their tariffs the CPUC  
22 did very strongly support time differentiated pricing for  
23 transmission, and this is also consistent with the earlier  
24 CPUC's decision.

25 So consistently the CPUC has been a strong



1 advocate for time of use pricing and we believe it is in the  
2 public interest because it's the only aspect of transmission  
3 pricing that really encourages a more efficient use of the  
4 transmission grid, otherwise you just incur penalties in the  
5 form of congestion charges during time periods of people  
6 demand, but when there's slack demand, there's no corollary  
7 offset major loads to shift shift and minor loads to the  
8 extent they have tailored metering.

9                   But we believe this is a very important  
10 aspect. It's very much in the interest of California's  
11 public, we believe, to have time sensitive transmission  
12 pricing. We represent and serve sixteen million customers  
13 in the state, and I'd be happy to answer any questions, if  
14 you have any, but I realize it's late, and I'll be happy to  
15 come back with more.

16                   CHAIRPERSON KAHN: Yes.

17                   MS. KEHREIN: My name is Carolyn Kehrein. I  
18 hopefully end with some people who pay the bills. As a  
19 board member I'm very active in all the discussions. There  
20 have been various phases, and I've been involved in every  
21 one of them. I do represent business customers, but during  
22 that process I spend so much time with Mike Florio that I'm  
23 certain all the comments I'm going to make today Mike would  
24 echo on behalf of the residential customers.

25                   I'm going to, since it is after noon, I will

1 try to be concise, but if I'm too brief, let me know.

2                   As far as I do represent I'm on the ISO board  
3 and to deal with one of the comments that was made as an ISO  
4 board member my focus is on reliability and the functioning  
5 of the markets and not just in the short-term but also in  
6 the long-term but unfortunately to get to the long-term you  
7 have to look at the short-term.

8                   But I'm interested in customers having energy  
9 that they need that they need to consume at a price that  
10 makes sense but put that aside right now I'm going to stop  
11 talking as an ISO board member and go back to being a  
12 consumer rep.

13                   I do have representation of consumers all  
14 across the state, for instance, the gentlemen that are no  
15 longer here that are at the table I have sat across from  
16 them on behalf of some of their consumers every single one  
17 of them, either them or their representatives or their  
18 agencies. I just don't represent all business customers in  
19 the state. I've got cross-section everywhere in the state,  
20 so I realize that in talking about the fact I've been  
21 involved in the process.

22                   I was one of the three people that sat down  
23 and came up with the seventy-eight million dollar number,  
24 although it was a hard decision. We did it based on the  
25 benefits we thought would happen. The ISO has done

1 quantification. Some of it is soft. We sat down and  
2 figured what was the benefits that we thought the IOU  
3 customers we thought would be comfortable committing them to  
4 pay every year for ten years and that number came out to  
5 seventy-eight million.

6                   There are a lot of soft benefits included in  
7 that, but we had to include the soft benefits because if we  
8 only included the hard benefits we wouldn't be necessarily  
9 treating the municipal customers fairly since we do  
10 represent all the customers.

11                   We were trying to come up with a fair balance  
12 and that balance we picked was the  
13 seventy-eight-million-dollar figure reliability benefits  
14 that we are certain are going to incur if we can get the  
15 states grid operate as a cohesive whole.

16                   As far as the impact that that means that  
17 means as the ISO said earlier approximately three dollars a  
18 year to eight thousand dollars a year to customers and that  
19 eight thousand dollar a year was a midsize business  
20 customer. We're not talking a refinery here. We're talking  
21 a really large customer that amount they pay seventy-eight  
22 million is six figures. We are talking about significant  
23 amounts of money here.

24                   Dave Freeman talked about doing by percent the  
25 first year. We're talking about ten percent significant

1 number, so fifty percent is outlandish to expect the IOU  
2 customers to pay.

3                   One of the issues -- one of the main issues  
4 and it was alluded to the gentleman from L.A. that was there  
5 when David talked about is encumbering under other rate  
6 payers outside of your service territory are going to be  
7 giving you money for your transmission assets what we're  
8 doing with that money is pay down your transmission costs so  
9 when we start paying all of your transmission costs, you've  
10 used the money that we've given you to pay it down.

11                   As a customer I thought that was a really fair  
12 thing to do and the governmental entities are not offsetting  
13 necessarily all the market revenues they will see when they  
14 join, so the numbers they are giving you are not monetizing  
15 the benefits of being able to participate in the markets and  
16 participating in the markets.

17                   They also are ignoring the overall benefits  
18 that all the customers in the state are going to get from  
19 having a cohesive market and why we'll get the benefits. I  
20 always pick the wrong line. If there was just one line and  
21 we all got in one line and they let us go one check and the  
22 at one time we'd all do much better if we speed up how  
23 people get out we all benefit. If we're all essentially in  
24 one line and if we can do things to improve the system, we  
25 are all going to benefit.

1                   Another error they made, maybe I know this  
2 stuff because I've felt we weren't sure we were going to see  
3 our spouses on Valentine's Day that they are getting firm  
4 transmission rights in exchange for their transmission.  
5 They can opt to keep them or sell them, but if they keep  
6 them, they are firm. If they decide they want to put them  
7 in and sell them, they are given the option of having firm  
8 transmission rights.

9                   The big dispute is just a dispute of the  
10 benefits. There are benefits that are going to happen. We  
11 can't put a monetary benefit on it. Two of the three  
12 investor-owned utilities, the larger ones, says this -- they  
13 let three of us customers figure out what we thought the  
14 reasonable number was.

15                   I mean, they choked quite a bit when we said  
16 seventy-eight million. It was higher than the previous  
17 number, but three of the IOUs said "Okay. If you guys think  
18 seventy-eight million is the right number, three consumers  
19 that represent all the consumers in the state, that's a fair  
20 number."

21                   The munis were not willing to do that. The  
22 munis are not willing to distinguish numbers, so with that  
23 that is mainly what I want to say.

24                   Sorry. I realize there's other places you'd  
25 rather be this afternoon, but I thought you should find out

1 how the consumers felt that were involved in this process  
2 now informally for a couple years and the process has been  
3 going on pretty hard for over a year now. Thank you.

4 CHAIRPERSON KAHN: Thank you very much.

5 Questions?

6 Mr. Heath, do we have anything further on our  
7 agenda that we have to do?

8 EXECUTIVE DIRECTOR HEATH: Not that we have to  
9 do. I recommend we put the RTO matter off to the next  
10 meeting. By ISO management we're proposing a meeting with  
11 agencies. We'll report back to you on their responses.

12 CHAIRPERSON KAHN: Mr. Saltmarsh?

13 MR. SALTMARSH: One brief qualifying comment  
14 in relation to statements of the last panel, and I know that  
15 this board has expressed significant interest in the  
16 coordination efforts of the several state agencies with  
17 respect to FERC filings.

18 I know that it is, in fact, true that several  
19 days ago I had transmitted to me a draft filing from the  
20 D.C. Council who represents the Department of Water  
21 Resources council.

22 I would say I did not take the message that  
23 accompanied that as any sort of a consultation or invitation  
24 for comments. It was rather in the nature of saying that  
25 she had been asked to give it to me prior to this meeting so

1 that I would be aware of it.

2 CHAIRPERSON KAHN: Mr. Rozsa got that point.

3 MR. SALTMARSH: Thank you.

4 CHAIRPERSON KAHN: I'll entertain a motion to  
5 adjourn.

6 MR. WILLISON: So moved.

7 CHAIRPERSON KAHN: Second. All in favor, aye?  
8 Passed. Thank you very much. Happy holiday.

9 (Whereupon, the proceedings  
10 were concluded at 1:10 p.m.)

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